BUDGET BASICS

INTRODUCTION

This section provides an overview of certain basic budgeting and appropriations concepts, terms, and tools. It consists of the following sections.

Budget Process – A Primer. This document provides a basic grounding in a number of budget terms and concepts used in budgeting and appropriations and throughout the Legislative Budget Analysis.

Public School Funding – A Primer. K-12 public school funding is not only a significant general fund expenditure and an area of major legislative policy, the concepts and methodologies used to determine the budget are very complex. This section is designed to provide grounding in the workings of the BASE aid school funding mechanisms. A discussion of the 2003 biennium proposed K-12 expenditures is included in the Office of Public Instruction narrative on page E-14, Volume 4 of the Legislative Budget Analysis.

General Fund Status Sheet. The general fund status sheet is produced by the Legislative Fiscal Division throughout the legislative session (beginning approximately mid-way through) and provides the legislature with a current projection of the financial status of the general fund. This section describes the sheet and explains its components.

Budget Comparison Methodology. The legislature has traditionally compared expenditure growth from biennium to biennium to assess performance and growth patterns. Statute prescribes the methodology used to ensure consistent, accurate comparisons. This section explains the methodology. Figures 1 and 2 on pages 34 and 35 of this volume provide the comparison.

Expenditure Limitation. Statute prescribes certain limitations on state government growth. This section explains the methodology used to determine whether statute is being followed.

BUDGET PROCESS – A PRIMER

PURPOSE

This section provides an overview of the basic budget concepts, definitions of budget terms, and background and reference information pertinent to the 2001 biennium budget and legislative appropriations process.

TYPES OF LEGISLATIVE APPROPRIATIONS

Article VIII, Section 14, of the Montana Constitution reads:

> "Prohibited Payments: Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof."

Appropriations power lies with the legislature. In 17-7-501, MCA, three types of appropriations fall within the meanings of "appropriation made by law" as used in Article VIII, Section 14, of the Montana Constitution.

Temporary appropriations – Most activities of state government are funded on a temporary basis, usually for two-year periods. Funding, therefore, must be reauthorized by each legislature. The main vehicle for the provision of temporary appropriations is HB 2 (the General Appropriations Act).

Statutory appropriations – Statutory appropriations are made directly in statute, and are automatically made until and unless the law is changed. Statutory appropriations are listed in 17-7-502, MCA.

Budget amendments – Various authorities (most often the Governor) can approve the addition of certain funds (primarily federal) during the interim if certain statutorily-defined conditions are met. General fund appropriations cannot be added without express legislative approval.

In limited cases, authorizations to expend funds can also be made through appropriation or under general laws and contracts. The great majority of state agency operations are funded through temporary appropriations.

FUND TYPES

Governmental accounting differs from private enterprise accounting in that funding is segregated and defined by the source and use of the funding. There are four main groups of funds in state government accounting.

1. Governmental funds consist of the following funds:

   ?? **General fund** includes all financial resources except those that must be accounted for in another fund. The general fund collects most general taxes levied, including individual and corporate income tax, property tax, and investment income. Revenue from a number of other taxes is also deposited into the general fund.

   ?? **Special revenue funds** consist of two funds. 1) *State special revenue* is money from state and other sources earmarked for the purpose of defraying particular costs of an agency, program, or function. The largest state special revenue accounts are the Highways State Special Revenue Account (HSSRA), which collects various fuel taxes and is used to support highway-related functions, and the general license account, which collects various hunting and fishing fees and is used to support functions in the Department of Fish, Wildlife, and Parks. 2) *Federal special revenue* is revenue from federal sources. Most state agencies receive some federal funds. The two major sources of federal funds are used to support highway-related functions and human services programs such as Medicaid.

   ?? **Debt service funds** are used to account for the accumulation of resources for the payment of general long-term obligations, including principal and interest. Debt service funds are statutorily appropriated.

?? **Capital projects funds** are financial resources used for the acquisition or construction of major fixed assets. These funds are appropriated through bills that fund capital projects.

2. Proprietary funds are used for operations that provide goods or services to the public on a user-charge basis (enterprise funds), or to other agencies or programs of state government (internal service funds).

3. Fiduciary funds provide for those assets held by state government in a trustee capacity, or as an agency for individuals, private organizations, other governmental entities, or other funds.

4. University funds are used to support the university system and are classified according to the College and University Business Association (CUBA) structure. The legislature appropriates a portion of the funds used to support the university system as governmental funds, which are then reclassified as university system funds.

With the exception of a small portion of proprietary funds, the legislature does not directly appropriate proprietary, fiduciary, or university funds. The legislature directly appropriates most governmental funds. Debt service funds are usually statutorily appropriated. Capital projects funds are appropriated in the bills that fund the capital projects. The great majority of general fund monies and special revenue funds are appropriated through temporary appropriations bills.

HB 2

The temporary spending bill through which over 90 percent of general fund monies and special revenue funds are appropriated is HB 2, the General Appropriations Act. The budget analysis contained in Volumes 3 and 4 of the *Legislative Fiscal Division 2003 Biennium Executive Budget Analysis* concentrates on the appropriations proposed for inclusion in HB 2.

Statute requires that the legislature establish fees and charges for all internal services functions. Statute further restricts programs from increasing those fees and charges during the biennium. The Executive Budget must also include a rate analysis of enterprise funds and internal service fees and charges. While only a small portion of proprietary funds are appropriated in HB 2, all rates approved by the legislature are listed in that bill.

Figure 1 shows all internal services rates reviewed and approved by the legislature.

Figure 1
Internal Services Functions
2003 Biennium

Agency/Program or Function
Secretary of State
Records Management
Administrative Rules
Transportation
Motor Pool
Equipment
Revenue
Customer Service Center
Administration
Accounting/Management Support
Procurement and Printing
Information Services, including SABHRS Operations
General Services
Central Mail
Professional Development Center
Payroll
State Employee Benefits
Risk Management/Tort Defense
Fish, Wildlife and Parks
Administration and Finance
Capitol Grounds Maintenance
Aircraft and Vehicle Usage
Duplicating and Bindery
Environmental Quality
Central Management
Natural Resources and Conservation
Air Operations
Commerce
Professional and Occupational Licensing
Local Government Services
Board of Investments
Director/Management Services
Justice
Agency Legal Services
Corrections
Corrections Enterprises
Labor and Industry
Montana Career Information Center
Central Services Division
Information Services Bureau
Office of Public Instruction
Centralized Services
Montana University System
MUS Group Insurance

BUDGET TERMS

Budgets must, by statute, be submitted in three tiers to allow legislative scrutiny of all stages of budget development:

The base - defined as the resources for the operation of state government, and used to cover current biennium expenses of an ongoing and non-extraordinary nature. The base and how it is derived are discussed in more detail in the "Base Budget" portion of this narrative.

Present law - defined as that additional level of funding needed to maintain operations and services at the level authorized by the previous legislature. Present law includes but is not limited to legally-mandated workload, caseload, or enrollment changes, changes in funding requirements, inflationary or deflationary adjustments, and elimination of one-time appropriations.

New proposals - defined as requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

Changes to the budget are made individually through decision packages, which must be approved by the legislature. Decision packages can either change present law or add new proposals approved for funding.

SUBMISSION DATES

The director of the Office of Budget and Program Planning (OBPP) is required to submit a preliminary budget reflecting the base budget to the LFD by October 10, and a preliminary budget reflecting a present law base by November 1 in the year before a session. The director is further required to submit an entire preliminary budget by November 15. The LFD provides a detailed and comprehensive analysis of the Executive Budget, as well as an analysis of other fiscal policy issues.

BASE BUDGET

The current Executive Budget used actual fiscal 2000 expenditures as recorded on the Statewide Accounting, Budgeting, and Human Services (SABHRS) System as the base for determining a present law budget for the 2003 biennium. Certain items were then excluded in order to create a base that reflects only: 1) the cost of ongoing programs or functions approved by the last legislature; and 2) expenditures authorized by the legislature. OBPP and LFD staff reached agreement on virtually all expenditures removed from the base. The LFD analysis provides an explanation within context of any program in which a base difference remains.

Following is an explanation of each type of expenditure category *excluded* from the base:

Appropriation Transfers

Section 17-7-301, MCA, allows the Governor to authorize the transfer of funds appropriated for the second year of the biennium to the first year, if the Governor finds that "due to an unforeseen or an unanticipated emergency" the amount appropriated for the first year of the biennium "will be insufficient for the operation and maintenance of the department." Since such transfers do not result from legislative action and may be used for meeting one-time costs, these transfers are excluded from the base. However, if the transfer funds an ongoing cost, OBPP adjusts the present law budgets for the next biennium accordingly.

Budget Amendments

Budget amendments provide temporary authority allowing agencies to spend unanticipated non-general fund revenue received after the legislature has adjourned. This revenue can to be used to provide additional services. In accordance with 17-7-402, MCA, budget amendment authority terminates at the end of each biennium and can make no "ascertainable present or future significant commitment for increased general fund support." Expenditures financed through budget amendments are excluded from the base. If an agency wishes to continue an activity financed with a budget amendment in the following biennium, the request must be presented as a new proposal.

One-Time Appropriations

In general, miscellaneous or "cat and dog" appropriations (appropriations made in bills other than the general appropriations act) are considered "one-time" and not continued in the base. The legislature may specify in appropriation acts that an appropriation is not intended to be ongoing and may not be included in the base.

Language Appropriations

In appropriation acts, the legislature may authorize expenditure of funds from a specific source without providing a specific dollar appropriation. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds (that it is required by statute to spend) but is uncertain as to the amount of those funds. In order to be sanctioned by law as an appropriation, the language must, at least, fix a maximum amount that the appropriations may not exceed. Assuming that ongoing expenditures from these sources are one-time only in nature, the expenditures are excluded from the base.

Non-Budgeted Expenditures

Generally Accepted Accounting Principles (GAAP) require agencies to make accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't result in the actual expenditure of funds from the state treasury.

Statutory Appropriations

Section 17-7-501, MCA, provides that funds may be appropriated in permanent law rather than through appropriation bills, which are effective for one biennium only. In order for a statutory appropriation to be valid, the statute creating the appropriation must specifically state that it is a statutory appropriation. The statute must then be listed in section 17-7-502, MCA. Currently, there are 71 valid statutory appropriation references listed. Examples of statutory appropriations include personal property reimbursements made to local governments and schools and motor fuel tax revenues distributed to counties.

Other Appropriations

This category includes administrative transfers created by OBPP, continuing appropriations from previous years, internal offset adjustments to appropriations, and miscellaneous appropriations.

ENTITLEMENT AND FORMULA-FUNDED PROGRAMS

Under current state and federal law, certain programs are "entitlement programs," which means that if an individual meets the underlying criteria for qualification, services must be provided (i.e., the person is "entitled" to the service). Projected growth or declines in these programs are funded as part of the present law budget, rather than through new proposals. For example, the legislature has established statutory levels of state support for each child enrolled in Montana public schools. Similarly, federal and state laws require that persons eligible for Medicaid receive specified services or grants. The programs treated as entitlement include K-12 BASE aid, Medicaid, and foster care.

PERSONAL SERVICES "SNAPSHOT"

Personal services costs comprise over 45 percent of total agency operating expenditures (excluding capital outlay, grants and benefits, and transfers) in the 2003 biennium Executive Budget.

The Executive Budget is based on a "snapshot" of actual salaries for authorized FTE, as they existed in the last pay period of fiscal 2000. The Executive Budget includes annualization of the pay increases appropriated in fiscal 2000 and 2001.

Workers' Compensation and Unemployment Insurance rates vary from agency to agency. Each agency has a different rate based upon experience.

VACANCY SAVINGS

Vacancy savings is the difference between the full appropriated cost and the actual cost of authorized employee positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures lower than the amounts appropriated.

During the 1997 biennium, the legislature included varying vacancy savings rates among selected agencies, and among programs within agencies, in order to fund the executive pay plan. A contingency fund containing $500,000 general fund and $1,000,000 in other funds was included for this purpose.

During the 1999 biennium, the legislature applied a uniform 3 percent vacancy savings rate against all positions in state government, with the exception of those positions in agencies with fewer than 20 FTE. The legislature also assumed that any new positions added via new proposals would not be hired at the very beginning of the fiscal year as a result of the need to recruit and to meet other requirements demanding the expenditure of time. Operating under the assumption that such positions would not be filled for the first three months of the fiscal year, the legislature applied a 25 percent vacancy savings rate in the first year. The legislature also provided $2.3 million general fund and $8.8 million in other funds for the biennium in support of a contingency pool for those agencies that could not meet their vacancy savings targets. A further discussion of the pay plan is included on page 61 of this volume.

For the 2001 biennium, the legislature adopted a vacancy savings rate of 3 percent on all personal services except insurance. This rate was not applied to agencies with fewer than 20 FTE, elected officials, university system faculty or to direct care workers within the Department of Corrections. The legislature funded a contingency pool of $700,000 from the general fund and $950,000 in other funding for the biennium.

For the 2003 biennium, the Executive Budget proposes a 3 percent vacancy savings rate on all personal services with the exception of insurance. As in the 2001 biennium, agencies with fewer than 20 FTE as well as university system faculty are exempt. The Executive Budget also includes a contingency fund of $1.0 million general fund and $3.0 million from other funds for the biennium to meet potential costs involved for those agencies that do not meet their vacancy savings targets.

FIXED COSTS

Agencies are charged fees (called fixed costs) for a variety of services provided by other state agencies. The Executive Budget includes fixed costs for the following services: Department of Administration (DofA) insurance and bonds (62104), DofA warrant writing fees (62113), DofA payroll service fees (62114), Legislative Auditor audit fees (62122), SABHRS (Statewide Accounting, Budgeting, and Human Resources System) operating costs (62148), DofA network fees (62174), messenger services (62307), State Motor Pool leases (62510), DofA rent (62527), capitol complex grounds maintenance (62770), MTPRRIME (Montana Project to Reengineer the Revenue and Information Management Environment, the precursor to SABHRS) debt service costs (62875), and the state fund cost allocation plan (62895).

Figure 2 shows the total amounts included in the Executive Budget for fixed costs.

Figure 2
Fixed Costs*
2003 Biennium Executive Budget (in Millions)

Subcommittee/Agency	Function	Total
General Government		
Administration	Insurance & Bonds	$16.714
	Warrant Writing Fees	1.677
	Payroll Service Fees	0.727
	Data Network Services	19.070
	SABHRS Operating	8.351
	MTPRRIME Bonds	4.520
	Messenger Services	0.340
	Rent - Buildings	10.807
Transportation	Motor Pool Leases	5.875
Legislative Audit Division	Audit Fees	2.973
Natural Resources and Commerce		
Fish, Wildlife, & Parks	Grounds Maintenance	0.640
Various	State Fund Allocation Plan	1.291
Total		$72.985

*Includes all funds, including non-budgeted proprietary funds.

Insurance and Bonds

The Risk Management and Tort Defense Division of the DofA collects premiums from state agencies for: 1) administration of the self-insurance program, which provides state agencies with general liability and automobile coverage; and 2) purchase of commercial policies for state agency property, aircraft, and to protect against the potential consequences of other risks. Costs are allocated to agencies based upon actual loss experience and inherent exposure.

Warrant Writing Fees

DofA provides warrant writing and direct deposit services for agency financial transactions. The costs of these services are allocated to agencies based upon actual fiscal 1998, fiscal 1999, and fiscal 2000 (through May 2000) utilization of the various types of transactions.

Payroll Service Fees

The State Payroll Program in DofA prepares and distributes payroll for all state agencies. Costs of these services are allocated to agencies based upon the number of paychecks issued for each agency per year.

Audit Fees

The Legislative Audit Division charges agencies for the costs of financial compliance audits. These charges are included in agency budgets as biennial appropriations and allocated according to the estimated number of billable hours for each agency audit.

SABHRS Operations Unit

In the 2001 biennium, the new Statewide Accounting, Budget, and Human Resources System (SABHRS) was put in place. This unit provides all operational support for the new systems. Costs were allocated in the Executive Budget based upon the number of fiscal 2000 full-time equivalent employees.

Data Network Services

The Information Services Division (ISD) of DofA charges agencies for the technology network that allows agency personal computers to be attached to the state mainframe and, via the mainframe, to other agency computers. Costs for this service are allocated to agencies based upon the projected number of personal computers connected to the network each year. A fixed monthly rate per computer is used to determine the overall agency charge.

Messenger Service

The Mail and Distribution Program in DofA charges state agencies for interagency mail pickup and delivery services. Costs for these services are allocated to agencies based upon the volume of mail generated by, and number of daily deliveries to, each agency.

State Motor Pool Leases

The State Motor Pool in the Montana Department of Transportation charges state agencies for the lease of vehicles. Charges are based upon anticipated hours of usage and anticipated miles traveled.

Rent

The General Services Division (GSD) of DofA charges rent to state agencies for costs relative to maintaining office and warehouse space in the capitol complex buildings managed by GSD. Included in the charges are utility, security and janitorial services, mechanical maintenance, and minor maintenance costs including such items as painting, lighting and carpeting. Warehouse costs are allocated to agencies based upon the amount of square footage of office warehouse space occupied; a fixed rate per square foot is used.

Grounds Maintenance

The Parks Division of FWP charges state agencies for grounds maintenance and snow removal at capitol complex buildings. Costs of these services are allocated based upon the square footage of office space occupied by a given agency.

MTPRRIME Bond Costs

MTPRRIME was funded using general obligation bonds. The costs of repaying those bonds are allocated to agencies as a fixed cost in the 2003 biennium. Costs were allocated based on the same method used for the SABHRS Operations Unit (see previous page).

State Fund Cost Allocation Plan (SFCAP)

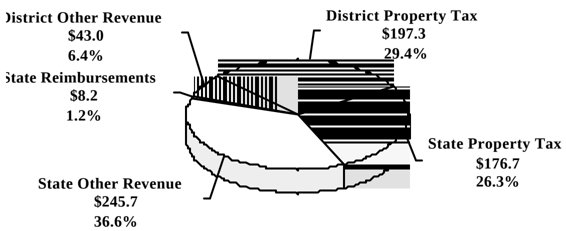
DofA administers the SFCAP, which charges non-general fund agencies and/or programs for those state government operating costs that cannot easily be identified with particular funding sources. Collections are deposited to the general fund to offset a portion of those costs. Operating costs of the following programs are partially recovered through SFCAP collections: State Personnel and the Accounting and Management Support Divisions of DofA, and the Office of Budget and Program Planning in the Governor's Office. Costs are allocated to agencies based upon the following: a) State Personnel - the number of FTE authorized and classified, and the number of negotiated labor contracts held; b) Accounting and Management Support - the number of SABHRS and cash transactions and actual expenditures made; and c) OBPP - the number of FTE employed and budgeted fund expenditures made.

PUBLIC SCHOOL FUNDING – A PRIMER

INTRODUCTION

The purpose of this section is to explain how K-12 education is funded. This section focuses on the major district funds for which the state supplies at least some of the funding.

Figure 3
District General Fund Revenues
Fiscal 1999, Millions



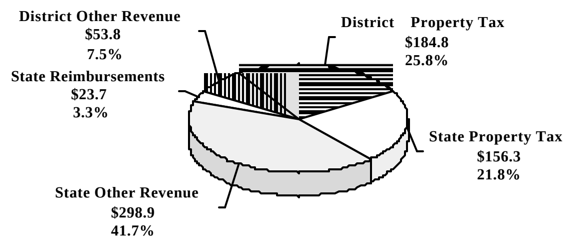
GF Revenue = $671 million; Source Trustees Report; State Share = 64.1%

The state share of district general fund revenue has declined over the years. In fiscal 1991, the state's share of district general fund revenue was 71 percent. As shown in Figures 3 and 4, the state's share of general fund revenue had fallen to 64.1 percent in fiscal 1999, but rose to 66.7 percent in fiscal 2001. The state's share includes property tax (the 95 mills), other state tax revenues and state property tax reimbursements. The local share includes property tax levied for schools either by the district or the county, as well as other own-source local revenue.

As shown in Figure 5, the state's share of revenue in all district funds was 47.2 percent in fiscal 1999.

School districts typically may spend out of nine budgeted funds, and many schools spend out of smaller nonbudgeted funds. Any fund which is funded by property tax must be budgeted.

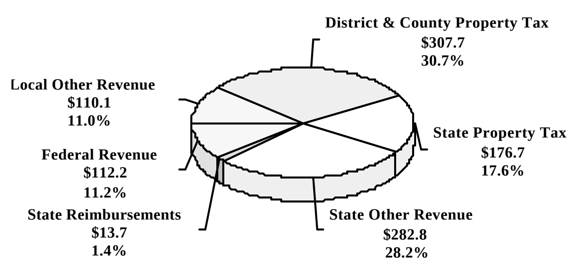
Figure 4
District General Fund Revenues
Fiscal 2001, Millions



GF Revenue = $717.5 million; Source FY2001 Budget, OPI; State Share = 66.7%

The budgeted funds include: 1) general fund, 2) retirement fund, 3) transportation fund, 4) debt service fund, 5) bus reserve fund, 6) adult education fund, 7) tuition fund, 8) building reserve fund, and 9) impact aid fund. This primer will focus on the first four of these, since state support in these funds is significant.

Figure 5
District All Fund Revenues
Fiscal 1999, Millions



Total = $1,003 million, excludes revenue from sales, bond proceeds, and student activities; State Share = 47.2

DISTRICT GENERAL FUND

The current system of school finance was established in HB 667, passed by the 1993 legislature and first applied to school funding in fiscal 1994. HB 667 created a system of funding schools in which the state mandates the limits within which a school district may budget its general fund expenditures. The maximum budget is the sum of the district's basic per-district entitlement, its per-ANB entitlement, and 153 percent of its special education allowable costs. The BASE (or minimum) budget for a district is the sum of 80 percent of the district's basic per-district entitlement, 80 percent of its per-ANB entitlement, and up to 140 percent of its special education allowable costs.

HB 667 allowed schools that had been budgeting above the newly created maximum budget in the past, to continue budgeting at that level indefinitely. Subsequently, this grandfather clause was altered in HB 22 (1993 special session), which required district voters to approve any budget authority above the maximum budget.

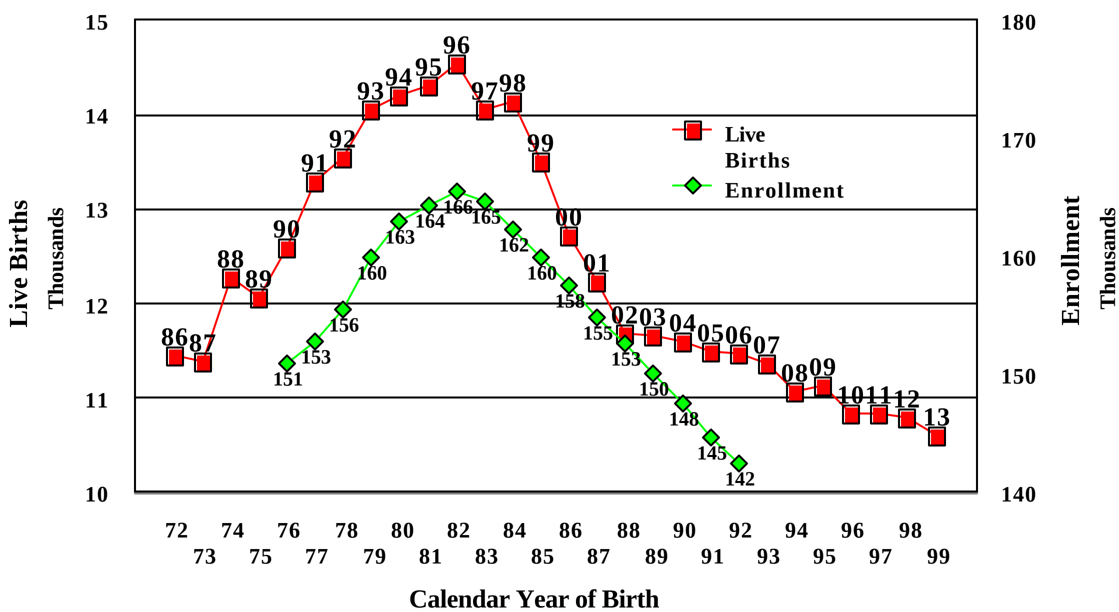
In fiscal 1994 when the new system was first implemented, many schools had general fund budgets that were below the BASE budget. Districts with budgets below the BASE budget were required to incrementally increase budget authority and budget at the BASE level by fiscal 1998.

ANB and Maximum and BASE Budgets

The maximum and BASE budgets are related by a formula in statute to Average Number Belonging (ANB), which is enrollment in the prior year adjusted by teacher days. As shown in Figure 6, enrollment peaked in fiscal 1996 and has been declining since, mainly as a result of falling birth rates in the mid 1980's through the mid 1990's.

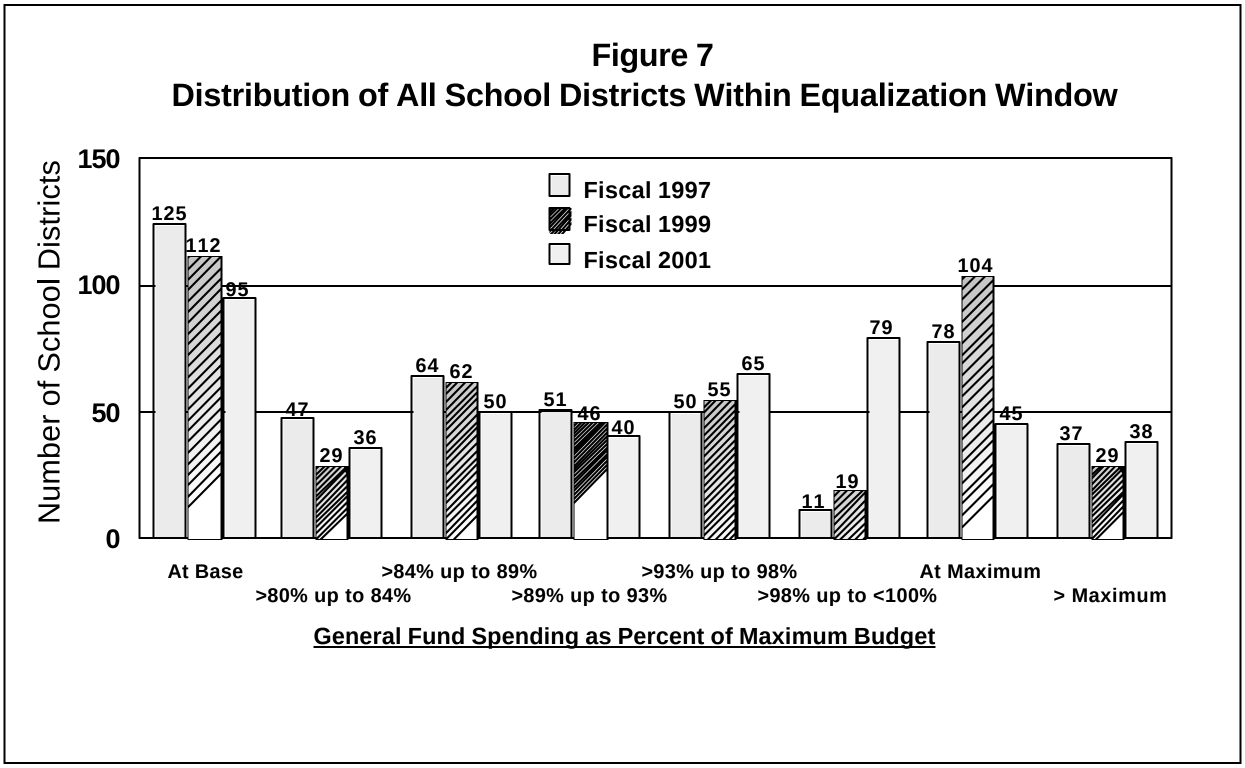
Without legislated changes in the maximum budget, the maximum budget in most school districts will continue to fall for many more years, with the result that more and more districts will adopt a budget at the maximum.

Figure 6
Live Births and K-12 Enrollment in Montana



Data on top line are fiscal years in which children enter 9th grade, and indicate year for enrollment.

Figure 7 shows the distribution of districts in the general fund budget window in fiscal 1997, 1999, and 2001 for all districts. The adopted general fund budget for each district is divided by the maximum allowable budget for each year. The number of districts in each of the brackets is then counted. A large number of districts budget at the BASE level although the number has declined. Many of these are schools that were required to increase spending to the BASE budget between fiscal 1994 and 1998.



Within the budget window, districts are fairly well distributed. A large and growing number of districts are budgeting between 98 percent of the maximum budget and the maximum budget. The number of districts budgeting in this area was 89 in fiscal 1997, and 123 districts in fiscal 1999, and 124 districts in fiscal 2001. More and more schools are budgeting near the maximum because of declines in ANB, which in the absence of legislation, require lower maximum budgets. For fiscal 2001, the legislature increased elementary maximum budgets by 6.6 percent and high school maximum budgets by 4.1 percent, which reduced the number of districts at the maximum budget. This reduction however is expected to be temporary, as declines in ANB continue.

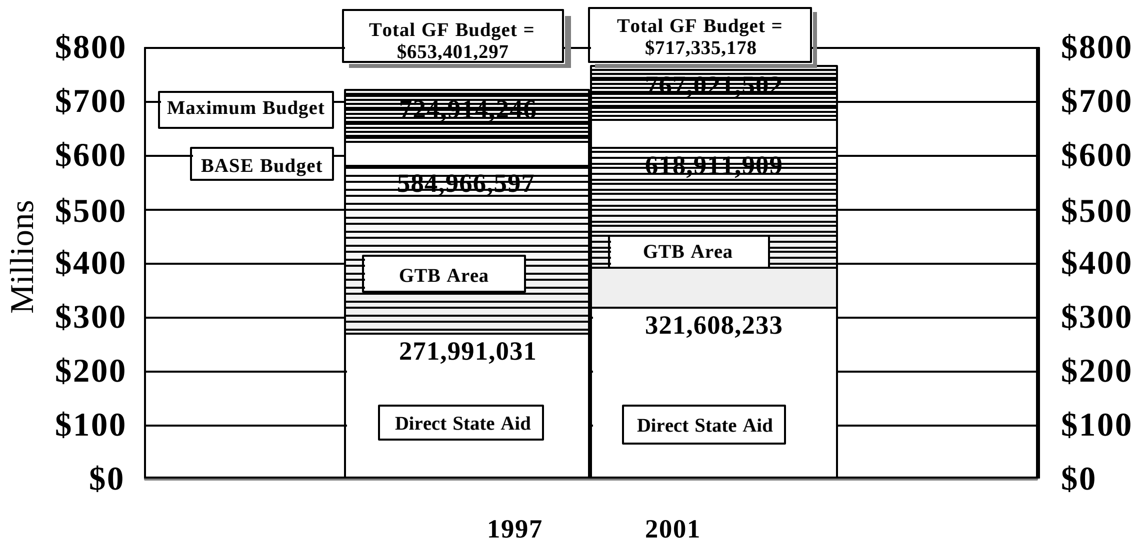
Figure 8 shows a comparison of the components of general fund budgets for fiscal 1997, when ANB was at its recent peak, and for fiscal 2001.

Between fiscal 1997 and fiscal 2001, ANB fell on average 1.6 percent per year. The maximum budget rose 1.4 percent per year and the adopted budget statewide rose 2.4 percent per year. On a per student basis, the adopted budget per ANB rose by 4 percent per year during this period.

Figure 8

School District General Fund Budgets

Maximum and Base Budgets, Fiscal 1997 & 2001



FY97 ANB = 164,752; FY2001 ANB = 157,538.

Funding the General Fund Budget

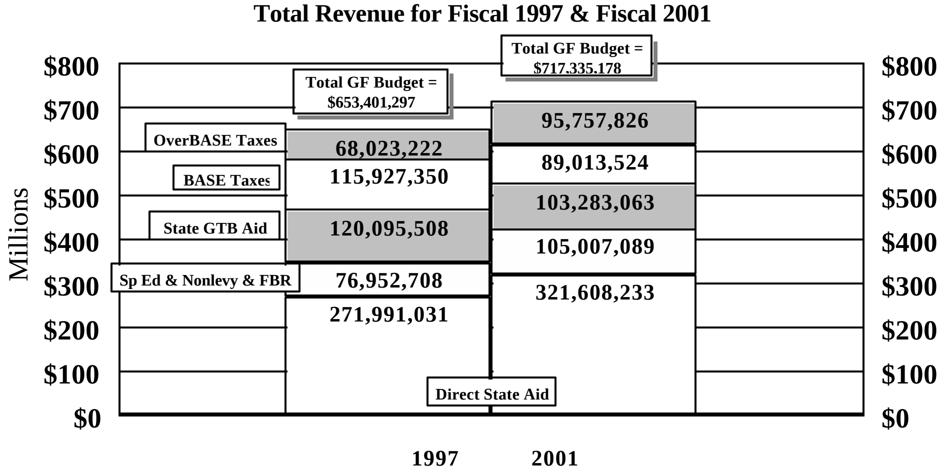
As shown in Figure 9, districts' general fund budgets are funded by state funds and local funds. State funds consist of direct state aid, state guaranteed tax base (GTB), and state special education grants. The sources of local funding are nonlevy revenue, property taxes, and reappropriated fund balances.

Direct state aid is a grant from the state to the district. Direct state aid is 44.7 percent of total entitlements used to calculate the maximum budget in fiscal 2001. In fiscal 1999, the DSA percent was 40 percent. Direct state aid is the first source of revenue considered by a district. In fiscal 2001, direct state aid received by schools will be $321.6 million.

Figure 9

School District General Fund Budgets

Total Revenue for Fiscal 1997 & Fiscal 2001



Not shown are $0.4 million in FY97 and $2.0 million in FY01 which is nonlevy revenue used in the over BASE area.

The portion of the budget above that funded by direct state aid and below the BASE budget is called the GTB budget. This is funded first by $30.3 million special education revenue per year received from the state general fund. The next source of revenue to fund the GTB is nonlevy revenue ($60.3 million in fiscal 2001) such as motor vehicle fees, local government severance taxes, coal gross proceeds, oil and gas net proceeds, investment earnings, and state property tax reimbursements. Many of these revenues are distributed among taxing jurisdictions within a county based on the ratio of the jurisdiction's mill levy to all levies applying in the jurisdiction. Reappropriated fund balances are unreserved fund balances left over from the previous year (approximately $14.4 million in fiscal 2001). Schools may hold in reserve at most an amount equal to 10 percent of the general fund budget. A growing source of district nonlevy revenue is state reimbursements for legislated property tax base reductions ($23 million in fiscal 2001, compared with only $8.2 million in fiscal 1999).

The remaining portion of the GTB area is funded by BASE property taxes ($89.0 million in fiscal 2001) and state GTB aid ($103.3 million in fiscal 2001). The amount of GTB aid a district receives depends on its relative wealth, as measured by taxable value per dollar of direct state aid. A relatively poor district's BASE mill levy generates local property taxes and a certain amount of GTB aid. The poorer the district, the more a BASE mill will be worth in terms of GTB aid. Statewide, the average ratio of GTB aid to BASE property tax revenue is a little greater than one. This may vary from zero for wealthy districts to over ten for poor districts.

Districts that budget above the BASE level must do so out of own-source revenue. Some districts are able to use nonlevy revenue to fund a portion of this budget area, but the vast majority levy overBASE mills against property. OverBASE property taxes are $95.7 million in fiscal 2001, and are a growing source of revenue funding district general fund budgets. Note that total property taxes in fiscal 2001 are nearly identical to property taxes in fiscal 1997.

A Short History of Legislative Changes in K-12 Funding

Figure 10 shows the impact of legislation on BASE aid entitlements since fiscal 1994. Figure 10 also shows ANB, the amount spent on BASE aid and on special education.

Figure 10
Entitlements, ANB and State Aid

Component	FY1994 Actual	FY95-97 Actual	FY1998 Actual	FY1999 Actual	FY2000 Actual	FY2001 Actual & Estimated	FY2002 Present Law	FY2003 Present Law
Bill Authorizing Entitlement Change	HB667	HB22	HB47	HB47	SB100	SB100/ HB4		
Basic (Per District) Entitlements								
Elementary	18,000	17,190	18,000	18,000	18,000	18,540	18,540	18,540
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	0.0%	0.0%
High School	200,000	191,000	200,000	200,000	200,000	206,000	206,000	206,000
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	0.0%	0.0%
Per ANB Entitlements								
Elementary	3,500	3,343	3,376	3,410	3,529	3,763	3,763	3,763
Percent Change		-4.5%	1.0%	1.0%	3.5%	6.6%	0.0%	0.0%
High School	4,900	4,680	4,726	4,773	4,821	5,015	5,015	5,015
Percent Change		-4.5%	1.0%	1.0%	1.0%	4.0%	0.0%	0.0%
Base Budget Components								
Direct State Aid	40.0%	40.0%	40.0%	40.0%	41.1%	44.7%	44.7%	44.7%
Guaranteed tax base aid	40.0%	40.0%	40.0%	40.0%	38.9%	35.3%	35.3%	35.3%
ANB and State Spending								
Average Number Belonging *	156,954	163,704	163,881	161,737	159,746	157,538	154,673	152,347
Percent Change		4.3%	0.1%	-1.3%	-1.2%	-1.4%	-1.8%	-1.5%
Special Education Funding (Millions)*	32.794	33.494	32.051	32.501	33.879	33.920	33.900	33.900
Percent Change		2.1%	-4.3%	1.4%	4.2%	0.1%	-0.1%	0.0%
BASE Aid (Millions)*	400.481	407.471	412.968	413.160	426.326	448.328	433.809	428.268
Percent Change		1.7%	1.3%	0.0%	3.2%	5.2%	-3.2%	-1.3%

* Values are averages for FY95-97
Bill and session year: HB667, 1993; HB22, Nov SS,1993; HB47, 1997; SB100, 1999, HB4,May SS,2000.

The level of entitlements under HB667 was in operation for fiscal 1994 only. The legislature then passed HB22 during the special session of 1993 and cut entitlements by 4.5 percent for fiscal 1995 through fiscal 1997. On average statewide, ANB was increasing in these years.

HB47 was passed by the 1997 legislature and raised per-ANB entitlements beginning in fiscal 1998 by 1 percent per year, and the basic entitlement in fiscal 1998 by 4.7 percent.

SB 100 was passed by the 1999 legislature and increased per-ANB entitlements by 1 percent for high schools and by 3.5 percent for elementaries in each year of the 2001 biennium. The direct state aid percent was raised from 40 percent to 41.1 percent in fiscal 2000 and to 41.8 percent in fiscal 2001. SB 100 also increased special education funding by approximately $1.5 million per year.

Then in special session in May 2000, HB 4 further raised the per-ANB entitlements in fiscal 2001 by 3 percent for both elementary and high school, and raised the direct state aid percent to 44.7 percent.

The last two columns of table 1 show the present law entitlements, ANB and state aid under the assumption that no further legislative changes are made.

Special Education

The state pays approximately $33.9 million in special education grants and reimbursements to districts and special education cooperatives. Special education cooperatives are groups of districts offering special education services. Districts receive the money in their general funds and spend it for services to children with various disabilities or impairments. The disabilities range from speech-language impairments and physical impaiments to multiple disabilities. In fiscal 1999, districts and coops spent $73.3 million in state and local contributions and $11.8 million in federal contributions on the allowable costs associated with the education of impaired students. Allowable costs are defined by the state, which provides grants for special education instruction and related services. State reimbursements are made to schools with extraordinary special education costs. As costs have risen, the amount of reimbursements has also risen, and the amounts of instructional block grants and related services grants have fallen.

The state special education grants and reimbursements flow to district general funds and are incorporated in calculating a district's maximum and BASE general fund budget limits. For each dollar increase in district receipts of state special education dollars, the maximum budget of the district increases by $1.53 and the BASE budget increases by $1.40. Increases in special education receipts by districts also increases the state GTB aid paid to a district, since GTB aid depends on the level of the BASE budget.

Special education students were 11.7 percent of the student population in fiscal 1999. Enrollments of special education students grew by close to 2 percent per year between fiscal years 1991 and 1994, but growth in special education enrollments has remained virtually flat since then. A new state funding system was put in place in fiscal 1994 that granted districts state special education dollars based on the number of ANB in the entire district. The old system had granted such dollars based on the number of identified special education students in each district.

The amount the state appropriates in special education grants to districts and cooperatives remained between $32 and $33 million between fiscal 1989 and 1999. SB 100 increased the state's contribution to special education costs by $1.5 million per year beginning in fiscal 2000. Districts and coops spent $40.3 million in fiscal 1990 for special education programs and $85.1 million in fiscal 1999, an annual growth rate of 7.7 percent per year. The state share of these costs has fallen commensurately.

Districts spend more on special education students than regular students. Spending for special education students was 177 percent of spending for regular students in fiscal 1998, and that percentage was up from 157 percent in fiscal 1993. For the same period, state support as a percentage of total spending fell for both types of students both on a dollar per student basis and as a proportion of total spending per student.

Voting Rules

Many of the decisions regarding the level and funding of general fund budgets must by law be referred to district voters. Beginning in fiscal 2001, the general fund voting provisions for districts adopting a general fund budget between the BASE and the maximum budget limits were amended to require voter approval for an increase in overBASE property tax revenue. Previous law had required a vote in order to increase ensuing year budgets above current year budgets regardless of the property tax revenue consequences. Under the new law, if an increase in budget authority can be funded without increasing overBASE property taxes revenue, the budget increase does not require voter approval. A 4 percent limitation on annual budget growth, or on annual budget growth per ANB, remains in effect.

The 1999 legislature also changed the budgeting rules for districts with declining enrollments. General fund budget limitations were amended for districts that are: 1) budgeting between the BASE and maximum budgets; and 2) have declining ANB populations. If ANB declines less than 30 percent and the district's current year adopted budget exceeds the district's ensuing year maximum budget, the district may adopt a budget for the ensuing year up to the ensuing year's maximum budget or 94 percent of the current year's budget, whichever is greater. The district may not exceed its maximum budget limit for more than five consecutive years.

If ANB declines by 30 percent or more and the district's current year adopted budget exceeds the ensuing year's maximum budget, the district must reduce the range between the district's current year budget and the ensuing year's maximum budget by:

?? 20 percent in the first year;
?? 25 percent in the second year;
?? 33.3 percent in the third year;
?? 50 percent in the fourth year; and
?? the remainder of the range in the fifth year.

Districts that have general fund budgets exceeding the maximum budget must annually ask voters to approve the part of the budget in excess of the maximum. However, the budget adopted for the current year may not exceed the lesser of: 1) the adopted budget for the prior year; or 2) the district current maximum budget plus the over-maximum budget amount adopted for the prior year.

If a district's budget in the current year is below the BASE budget in the upcoming year, either due to ANB increases or legislated increases in entitlements, district trustees must increase the budget to the BASE budget level and no voter approval is required.

Effective in fiscal 2000, the regular school and trustee election date is changed to the first Tuesday after the first Monday in May. Only one levy election may be held in a calendar quarter.

DISTRICT TRANSPORTATION BUDGET

Montana law provides for two types of public school transportation - a publicly funded school bus program and/or individual transportation contracts with a student's parents or guardian. School bus transportation may be provided directly by the school district, or the trustees of a district may contract with a private contractor to provide bus transportation for eligible students.

The trustees of a district may provide school bus transportation to any pupil of a public or private school. However, the district will receive reimbursement from the state and county only for eligible transportees. An eligible transportee must:

- be a resident of the State of Montana and attend a public school in Montana;
- be between the ages of 5 and 21 or be a preschool child with disabilities between the ages of 3 and 6;
- reside <u>at least 3 miles</u> from the nearest operating public elementary school or high school; and
- be considered to reside with his or her parent or guardian, who maintains legal residence within the boundaries of the district furnishing the transportation, regardless of where the eligible transportee lives when attending school.

The trustees of a district are not required by law to provide pupil transportation unless directed to do so by the county transportation committee. However, if the trustees decide to furnish transportation for any eligible transportee, they must ensure transportation for all eligible transportees.

On-Schedule Costs

A district's transportation budget is funded by receipt of state reimbursements for on-schedule costs, an amount which is matched by the county, and by district revenues, which fund "over-schedule" costs.

On-schedule costs are defined by the legislature and are expressed on a per mile basis. The per mile schedule costs depend on the size of the bus and are adjusted depending on the extent to which the bus is filled with riders. On-schedule costs are determined as the product of the per mile amount times miles traveled (including miles within the 3 mile zone) times 180 days. The state general fund reimbursement is one-half this amount or one-half the amount a district budgets for transportation, whichever is less. The county must match the state reimbursement amount with funds derived from the county school transportation fund. County revenues in the county transportation fund include all nonlevy revenue as well as levied property tax revenues.

District over-schedule costs are the difference between the transportation fund budgeted amount and state and county on-schedule reimbursements. Some districts are able to provide transportation services for the on-schedule amount, but the vast majority of districts incur costs above the on-schedule amount. On-schedule costs vary between 85 cents per mile per day and $1.80 per mile per day. Larger districts generally have higher per mile costs than small districts. Small districts have generally higher costs per ANB, and per ANB per mile, than do large districts.

Districts fund the over-schedule amount through a combination of nonlevy revenues and district property taxes. On-schedule costs are funded by the state reimbursement and the county reimbursement. District trustees may budget the over-schedule amount at their discretion and are not required to ask voters to approve that level. For on-schedule costs, the county superintendent determines the required property tax requirements, and the county commissioners set the required levy but are required to ask the voters to approve increases in property tax revenue.

In fiscal 1999, total district spending was $47.5 million. On schedule costs were $20.6 million of which half was paid by the county and half by the state. Over-schedule costs paid by the district were $26.9 million.

Some districts budget for transportation but do not engage in providing transportation. These districts do not own buses and do not contract with a private bus company. In many cases, these districts coordinate their transportation needs with a nearby district. For instance, many elementary districts coordinate with their high school district, if the high school is in the same community.

Approximately one-third of the bus routes in Montana are contracted with private bus companies. These contracts are usually observed in the larger districts. Some small districts, however, also contract and may contract with many private individuals to provide bus service. Contracts in the larger districts are often multi-year, and some provide inflation adjustments and/or gas price adjustments. The contracts are usually on a per mile basis or on a yearly basis for a set number of miles per day. The bus company usually must provide specially equipped buses and bus aides if necessary.

School districts may also contract with parents or guardians of pupils in need of transportation. Under section 20-10-142, MCA, the state and county must reimburse a district that makes a contract with a parent or guardian for transportation of eligible transportees at a rate of 21.25 cents per mile per day. The district may contract with a parent at a higher rate, and in fact federal rules regarding transportation of special needs students require that parents be reimbursed by the district at 29 cents per mile. Allowable miles are determined by multiplying the distance between the eligible transportee's residence and school, minus 6 miles. The total reimbursement is limited to one round trip per day. Districts with parents who transport their children to the nearest bus stop on an approved route are also reimbursed 21.25 cents per mile per day, with 3 miles deducted from the distance between the home and the bus stop.

RETIREMENT FUND

School districts employing personnel who are members of the teachers retirement system or other defined retirement systems must establish retirement funds from which to pay the districts' contributions to the systems. The amount each district must pay into the retirement fund is set by statute and is a set percentage of the employee's annual wage. Thus the spending requirements in the retirement fund increase with increases in wages and with increases in the number of employees. Also, because teacher wages are paid from the district general fund, the level of spending in the retirement fund is closely related to the level of spending in the general fund.

The retirement fund is managed at the county level. The county collects the money and deposits it in district retirement accounts. The district then pays for the retirement contributions. The county retirement fund is funded by nonlevy revenue, state GTB, and local property taxes. The amount of state GTB varies inversely with the value of a county's taxable property per ANB. Thus, less wealthy counties receive more GTB aid than do more wealthy counties.

The retirement fund has been a nonvoted fund. That is, the county superintendent determines the amount of the levy, and the county commissioners fix and set the levy without putting the issue before the voters.

The total payment to districts by counties in fiscal 1999 was $84.1 million. The state GTB payment to counties for retirement purposes was $19.8 million in fiscal 1999.

DEBT SERVICE FUND

School districts utilize a debt service fund to make debt service payments on bonds that have been sold to investors. The sale of bonds may be for purposes of capital construction, purchase of certain equipment or vehicles, refinancing past bond issues, or for funding a judgement against a district. Under current law, the state provides capital outlay reimbursements to schools with debt service payments associated with bonds that were sold after July 1, 1991.

Under a formula in statute, a school district's facility reimbursement is a set dollar amount per ANB in the district, which varies depending whether the student is in grades 1-6, 7-8 or in high school. In order for a school to receive a capital outlay reimbursement from the state, it must be GTB-eligible. Its taxable value per ANB must be below 121 percent of the state average taxable value per ANB. If a district is GTB-eligible, its school facility reimbursement is the lesser of its actual debt service expenditures or the calculated reimbursement. When the total statewide available reimbursements required exceed the amount available in the state appropriation, the reimbursements are prorated to the eligible districts.

The number of districts receiving school facility payments has grown from 14 districts in fiscal 1994 to 72 districts in fiscal 2001. The state appropriation has grown from $1 million in fiscal 1994 to $4.0 million in fiscal 2001. In most years, the growth in demand by districts for school facility payments has outstripped the growth in the level of the state appropriation. In fiscal 1994, the pro-rata percentage was 90 percent and in fiscal 1998 it was 79 percent. However, in fiscal 2000, when the appropriation was $3.5 million the pro-rata percent was 100 percent. This is expected to decline in fiscal 2001 as more schools have passed bond issues, the largest of which is a new building bond in Missoula High School district.

GENERAL FUND STATUS SHEET

The general fund status sheet (GFSS) is analogous to your personal checkbook register. Your bank balance fluctuates either up or down as you make deposits and expend monies. Similarly, the GFSS simply measures the state's financial condition as the legislature adjusts revenue flows (taxation policies) and appropriates funds (authorizes expenditures).

The GFSS is prepared during legislative sessions in order to provide the legislature with a current projection of the financial status of the general fund account. This budgetary status sheet is usually prepared at least once a week and serves as a "work in progress" tool to assist the legislature in balancing the state's general fund budget. Financial information on revenue estimates, taxation legislation, and appropriation measures are the basic components of the GFSS. The status sheet is usually prepared on Fridays and distributed either late Friday night or early Saturday morning.

The starting point for the status sheet is the projected general fund balance *before* any legislative action has been taken. This balance is based on revenue estimates adopted by the Revenue and Taxation Committee (RATC) on November 17, 2000, agency base budgets for fiscal 2000 as assumed for fiscal 2002 and 2003, LFD estimates for all statutory appropriations, fund balance adjustments, residual equity transfers, and the Executive Budget recommendations for supplemental appropriations.

The status sheet also shows any proposed legislation that has general fund fiscal impact (revenue or disbursement). These bills are posted to the document after any committee takes positive executive action. Subsequent amendments to bills are also incorporated into the document once they have been adopted by a committee. The projected ending balance <u>after</u> legislative action to date is provided to show the legislature a "point in time" status of the general fund account.

The status sheet also includes all general fund bills that could change the level of spending for state agencies. These bills, categorized as "potential appropriations," result from legislation that changes the duties and functions of state agencies without making a corresponding appropriation adjustment. These adjustments are considered by the House Bill 2 Conference Committee toward the end of the legislative session. These "potential" spending changes are *not* included in the projected ending balance until *after* legislative action has been taken.

Attached to the status sheet is a summary of budget development by joint appropriation subcommittees. These summaries show the budgets as approved by the subcommittees, as compared to the base budget for fiscal 2000. Both general fund and all funds detail are provided.

The information shown on the next page is an example of what the first GFSS will look like.

Legislative Fiscal Division
General Fund Status Sheet
2003 Biennium (Figures In Millions)

01/03/2003 01:24 PM 1st Legislative Day Status #1

Fiscal Condition Without Legislative Action

Beginning Fund Balance(Without Feed Bill & Supplementals)		$130.793	+	
Revenue & Taxation Committee Revenue Estimates		2,400.465	+	
Base Appropriations Using Fiscal 2000		(2,091.917)	-	
Estimated Statutory Appropriations		(96.730)	-	
Estimated Transfers		(9.700)	-	
Estimated Adjustments & Residual Transfers		0.000	-	
Ending Fund Balance Without Legislative Action			=	**$332.911**

Summary of Legislative Action

Revenue Adjustments

HJR 2 Revenue Estimates			+	**0.000**
House Taxation	No Change	0.000		
House Floor	No Change	0.000		
Senate Taxation	No Change	0.000		
Senate Floor	No Change	0.000		
Conference	No Change	0.000		
Revenue Legislation (See Table 1 For Detailed Bill Listing)			-	**0.000**

Appropriation Adjustments

	Present Law	New Proposal		
HB0002 General Appropriations Act			-	**0.000**
General Governement & Transportation	0.000	0.000		
Health & Human Services	0.000	0.000		
Natural Resources & Commerce	0.000	0.000		
Corrections & Public Safety	0.000	0.000		
Education	0.000	0.000		
Totals	$0.000	$0.000		
Other Appropriation Legislation (See Table 1 For Detailed Bill Listing)			-	**(6.700)**
Total Legislative Action			-	**($6.700)**

Fiscal Condition With Legislative Action **$332.911** - **($6.700)** = **$326.211**

Legislative Fiscal Division
General Fund Status Sheet
2003 Biennium (Figures In Millions)

01/03/2003 01:24 PM 1stLegislative Day Status #1

Table 1 - Detail of Legislative Action

Bill Number	Short Description of Proposed Legislation	Revenue Impact	Appropriation Impact	Potential Impact *	Total Impact
HB0001	Feed Bill		(6.700)		(6.700)
	Total of Legislative Action	**$0.000**	**($6.700)**	**$0.000**	**($6.700)**

* Potential appropriations result from legislation changing the duties and functions of state agencies without a corresponding appropriation adjustment. These adjustments will be considered in House Bill 2 conference committee towards the end of the legislative session.

BUDGET COMPARISON METHODOLOGY

The legislature has traditionally used budget comparisons as a tool to assess budget performance and growth patterns in the state budget.

A great deal of interest, confusion, and controversy developed in recent years over the size of the state budget and methods of comparison. The state budget is complex, and the methods used to compute the comparisons can vary considerably.

In view of the confusion over comparisons, the 1997 legislature passed SB 35, sponsored by the Legislative Finance Committee (LFC), which established a statutory methodology (17-7-151, MCA) for calculating budget comparisons.

This section summarizes the major tenets of the statutory budget comparison. This methodology is intended for those comparisons that are made before, during, and immediately following legislative sessions to measure budget performance and growth. The major tenets of the methodology include:

1. The measure of budget performance will be total state expenditures of funds (projected) obtained from taxes, licenses, and certain fees. This includes federal funds.
2. The unit of measure for the comparisons will be actual expenditures in the first year plus appropriations in the second year of the current biennium, compared to appropriations in the next biennium.
3. The comparisons must be fair and balanced. That is, the same attributes are to be included on both sides of the comparison, and to be calculated using like methods.
4. The Legislative Fiscal Analyst and the Governor's Budget Director will work together to reach agreement on estimates to be included in the projections. Where there are irreconcilable differences, the LFD is to explain them as part of the budget analysis.
5. Both the Legislative Fiscal Analyst and the executive are required to use the statutory methodology for budget comparisons. This is to ensure consistency of application and avoid manipulation of comparisons.

The methodology includes all appropriations and projected expenditures, as stated in item number 1 above. Statute lists the types that must be included, but specifically excepts certain expenditures to eliminate duplicate costs, non-operational costs, transfers, enterprise operations, and fiduciary funds.

The following components (fund and appropriation type) are to be included in budget comparisons:

- ?? General fund, state special, and federal revenue
- ?? Proprietary funds that require an appropriation
- ?? Cash appropriations for the Long Range Building Program
- ?? Agency Funds – only tax distributions to local governments

The following components are to be excluded from the comparisons for the reasons shown:

- ?? Eliminate double counting:
  - ✍ Debt Service Funds

Capital Project Funds (except cash appropriations)
Internal Service Funds (Proprietary)
Administrative/Agency Transfer Appropriations

- ?? Eliminate Enterprise/Corporate Components:

Enterprise Funds (Proprietary)
University Funds - Unrestricted
University Funds - Other

- ?? Eliminate Fiduciary Funds:

Agency Funds (except tax distributions)
Expendable Trust Funds
Non-expendable Trust Funds
Pension Trust Funds

- ?? Non-Budgeted Items:
- ?? Non-cash accounting entries
- ?? Private Funds (state special revenue)

The Legislative Fiscal Division budget comparisons are presented on pages 34 and 35 of this volume, and were prepared using the prescribed methodology in 17-7-151, MCA.

EXPENDITURE LIMITATION

2003 BIENNIUM BUDGET BELOW LIMIT

Section 17-8-106, MCA, limits the increase in biennial appropriations from the general fund, state special revenues, and the cash portion of the capital projects fund to the growth in Montana's personal income. The following is a summary of the expenditure limitation calculations applied to the Executive Budget for the 2003 biennium.

The proposed budget for the 2003 biennium is $127.8 million below the statutory expenditure limit. Under the executive recommendation, the increase in spending in applicable categories affected by the limitation will be less than the growth in Montana's personal income between 1996-1998 and 1998-2000.

CALCULATION OF LIMIT

The following types of appropriations are excluded from the calculations:

- money received from the federal government;
- payments on bonded indebtedness;
- money paid for unemployment or disability benefits;
- money received from the sale of goods and services;
- money paid from permanent endowments, constitutional trusts, or pension funds;
- proceeds from gifts and bequests;
- money appropriated for tax relief; and
- funds transferred within state government or purchases of goods for resale.

Three steps are required to determine the expenditure limit:

Step 1 - Determine the base appropriation levels for the 2001 biennium and the executive request for the 2003 biennium by summing appropriations for the general fund, state special revenue, federal special revenue, and cash portion of the capital projects fund, excluding the items listed above.

Step 2 - Determine the growth in average personal income for the three years preceding the current biennium (1996, 1997, and 1998) and the three years preceding the next biennium (1998, 1999, 2000). The growth in Montana's personal income between these two periods is 9.8 percent.

Step 3 - Increase the 2001 biennium base appropriations by the growth in personal income to establish the expenditure limitation. Subtract the Executive Budget appropriations for the 2003 biennium from the 2001 base limitation. This difference is $127.8 million.

COMPLIANCE

Figure 11 shows the figures used to calculate the spending limitation for the 2003 biennium. The calculations show that the Executive Budget recommendations for the 2003 biennium are below the expenditure limit.

Figure 11
Expenditure Limitation Calculation
2003 Biennium

Step 1	Fiscal 2000	Fiscal 2001	2001 Biennium
Base Appropriations			
Total State Appropriations*	$3,178,812,875	$2,664,406,047	$5,843,218,922
Exclusions			
Federal special revenue	($1,309,448,453)	($1,067,952,594)	($2,377,401,047)
Debt service	(22,769,580)	(17,737,270)	(40,506,850)
Unemployment benefits	(846,665)	(846,665)	(1,693,330)
Private funds	(12,326,640)	(11,297,141)	(23,623,781)
Tax relief	0	0	0
Transfers	0	0	0
Total	($1,345,391,338)	($1,097,833,669)	($2,443,225,008)
Base Appropriations	$1,833,421,537	$1,566,572,378	$3,399,993,915
	Fiscal 2002	Fiscal 2003	2003 Biennium
Executive Budget			
Total State Appropriations*	$3,213,133,607	$3,174,491,661	$6,387,625,268
Exclusions			
Federal special revenue	($1,360,717,211)	($1,361,732,323)	($2,722,449,534)
Debt service	(22,566,507)	(23,015,469)	(45,581,976)
Unemployment benefits	(500,811)	(500,811)	(1,001,622)
Private funds	(6,249,356)	(4,841,425)	(11,090,781)
Tax relief	0	0	0
Transfers	0	0	0
Total	($1,390,033,885)	($1,390,090,028)	($2,780,123,913)
Executive Appropriations	$1,823,099,721	$1,784,401,633	$3,607,501,354

Step 2			
Personal Income Growth	Income	3-year Average	Growth %
Calendar Year 1996	$16,992,479,000		
Calendar Year 1997	17,720,950,000		
Calendar Year 1998	18,754,726,000	$17,822,718,333	
Calendar Year 1999	19,437,719,000		
Calendar Year 2000 (est)	20,548,719,989	19,580,388,330	9.86%

Step 3	
Expenditure Limitation	
Base Appropriations Plus 9.86%	$3,735,300,077
Executive Appropriations	3,607,501,354
Expenditure Balance	$127,798,723

* General Fund , State Special, Federal Special, Cash Capital Projects

LFD ISSUES

Because of the method used to calculate the expenditure limitation, it is doubtful that any proposed budget would have difficulty with the limitation. The method differs with the method used to calculate budget comparisons required under 17-7-151, MCA, thus resulting in possible confusion by comparing different parts of the Executive Budget with different bases. The legislature may want to consider the value of the expenditure limitation and eliminate the requirement if it is found to be of little or no value.

Although statute requires that the appropriations for the upcoming biennium not exceed the limitation, no calculations of the limitation were provided in the Executive Budget.

AGENCY BUDGET COMPARISONS BY FUND

GENERAL FUND

As defined in 17-7-1-2, MCA, the general fund "accounts for all financial resources except those required to be accounted for in another fund." The general fund funds the general operations of state government.

General fund increases by $216.2 million, or 10.0 percent from the 2001 biennium to the 2003 biennium. Major reasons for this increase are:

1. $39.3 million in the Department of Revenue for increased reimbursements to local governments to replace lost revenue due to the passage of SB 184 in the 1999 legislative session;
2. $14.4 million for a 3 percent increase in K-12 BASE aid in fiscal 2003;
3. $24.0 million for Medicaid cost increases and annualization of provider rate increases;
4. $10.1 million for annualization of other human services programs, including mental health and the Children's Health Insurance Program (CHIP);
5. $12.8 million for human services provider rate increases;
6. $19.9 million for correctional population growth and $9.4 million for increased staff and pay exceptions in the Department of Corrections;
7. $7.5 million for enhanced per student state support in the Montana University System; and
8. $8.9 million to replace reduced 9 mil levy and 6 mil levy revenue in human services and the Montana University System.

Figure 1
General Fund Comparison
01 Biennium Versus Executive Budget 03 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2000	Adjusted Authorized Fiscal 2001	Total Exec. Budget Fiscal 2002	Total Exec. Budget Fiscal 2003	Total Adjusted Fiscal 00-01	Total Exec. Budget Fiscal 02-03	Difference 03 Biennium - 01 Biennium	% Change 01 Biennium 03 Biennium
1104	Legislative Branch	$6,729,738	$6,998,257	$8,352,840	$8,289,859	$13,727,995	$16,642,699	$2,914,704	21.23%
2110	Judiciary	8,204,056	8,494,394	9,879,334	9,848,413	16,698,450	19,727,747	3,029,297	18.14%
3101	Governor's Office	3,024,552	3,083,295	3,294,396	3,239,049	6,107,847	6,533,445	425,598	6.97%
3202	Commissioner of Political Prac	317,129	367,961	352,660	349,043	685,090	701,703	16,613	2.42%
3401	State Auditor's Office	1,006,595	2,427,878	356,945	355,658	3,434,473	712,603	(2,721,870)	-79.25%
3501	Office of Public Instruction	480,885,526	496,165,335	492,876,302	502,896,894	977,050,861	995,773,196	18,722,335	1.92%
4107	Crime Control Division	2,511,110	2,553,913	2,600,546	2,611,929	5,065,023	5,212,475	147,452	2.91%
4110	Department of Justice	21,562,997	22,032,935	24,342,588	24,332,942	43,595,932	48,675,530	5,079,598	11.65%
5101	Board of Public Education	137,503	138,362	156,828	155,507	275,865	312,335	36,470	13.22%
5102	Commissioner of Higher Ed	124,494,535	127,138,939	138,737,957	141,334,978	251,633,474	280,072,935	28,439,461	11.30%
5113	School for the Deaf & Blind	3,194,426	3,353,011	3,437,411	3,412,987	6,547,437	6,850,398	302,961	4.63%
5114	Montana Arts Council	280,604	278,549	371,686	340,748	559,153	712,434	153,281	27.41%
5115	Library Commission	1,597,833	1,623,562	2,286,128	2,014,746	3,221,395	4,300,874	1,079,479	33.51%
5117	Historical Society	1,650,520	1,575,925	2,400,019	2,376,134	3,226,445	4,776,153	1,549,708	48.03%
5201	Dept. of Fish,Wildlife & Parks	419,466	417,048	433,555	433,555	836,514	867,110	30,596	3.66%
5301	Dept of Environmental Quality	3,266,376	3,546,651	4,961,704	4,554,355	6,813,027	9,516,059	2,703,032	39.67%
5401	Department of Transportation	250,000	250,000	250,000	250,000	500,000	500,000	0	0.00%
5603	Department of Livestock	532,277	684,345	656,582	661,565	1,216,622	1,318,147	101,525	8.34%
5706	Dept Nat Resource/Conservation	16,529,294	17,012,277	19,423,673	18,403,990	33,541,571	37,827,663	4,286,092	12.78%
5801	Department of Revenue	39,981,718	83,165,934	83,089,754	83,300,344	123,147,652	166,390,098	43,242,446	35.11%
6101	Department of Administration	3,955,998	4,217,651	4,101,864	3,849,168	8,173,649	7,951,032	(222,617)	-2.72%
6102	Appellate Defender	0	0	0	0	0	0	0	
6201	MT Dept of Agriculture	608,714	1,683,720	762,721	756,456	2,292,434	1,519,177	(773,257)	-33.73%
6401	Dept of Corrections	89,104,188	90,489,229	102,679,452	108,495,433	179,593,417	211,174,885	31,581,468	17.58%
6501	Department of Commerce	2,095,231	2,270,472	2,727,793	2,683,970	4,365,703	5,411,763	1,046,060	23.96%
6602	Labor & Industry	1,510,870	1,531,277	2,148,437	2,152,184	3,042,147	4,300,621	1,258,474	41.37%
6701	Dept of Military Affairs	2,793,106	2,954,871	4,595,900	4,314,180	5,747,977	8,910,080	3,162,103	55.01%
6901	Public Health & Human Services	228,813,863	232,535,810	261,010,339	270,913,576	461,349,673	531,923,915	70,574,242	15.30%
	Total	$1,045,458,225	$1,116,991,601	$1,176,287,414	$1,202,327,663	$2,162,449,826	$2,378,615,077	$216,165,251	10.00%

STATE SPECIAL REVENUE

As defined in 17-7-102, MCA, the state special fund "consists of money from state and other non-federal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or non-federal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation."

State special revenue increases by $21.8 million, or 2.8 percent. This increase is due to three primary increases, partially offset by two primary decreases:

- ?? $26.1 million for increased construction match and administration in the Department of Transportation;
- ?? **$**7.6 million in the Department of Natural Resources and Conservation due to the addition of $3.6 million for state water rehabilitation and numerous general operating increases; and
- ?? $5.9 million in the Department of Fish, Wildlife, and Parks for a number of department-wide increases.

The major decreases are:

- ?? $19.5 million in the Department of Environmental Quality due to reduction in requested authority for bond forfeitures;
- ?? $5.8 million in the Montana University System due to reduced 6 mil levy revenues

Figure 2
State Special Revenue Fund Comparison
01 Biennium Versus Executive Budget 03 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2000	Adjusted Authorized Fiscal 2001	Total Exec. Budget Fiscal 2002	Total Exec. Budget Fiscal 2003	Total Adjusted Fiscal 00-01	Total Exec. Budget Fiscal 02-03	Difference 03 Biennium - 01 Biennium	% Change 01 Biennium 03 Biennium
1104	Legislative Branch	$2.115.977	$1.723.761	$2.431.590	$1.812.704	$3.839.738	$4.244.294	$404.556	10.54%
1112	Consumer Counsel	867.516	1.098.793	1.106.076	1.108.133	1.966.309	2.214.209	247.900	12.61%
2110	Judiciary	1.488.214	1.653.994	1.669.691	1.678.959	3.142.208	3.348.650	206.442	6.57%
2115	Mt Chiropractic Legal Panel	10.539	17.193	15.000	15.000	27.732	30.000	2.268	8.18%
3101	Governor's Office	230.746	271.752	454.715	305.419	502.498	760.134	257.636	51.27%
3401	State Auditor's Office	2.206.376	3.283.226	3.294.998	3.227.046	5.489.602	6.522.044	1.032.442	18.81%
3501	Office of Public Instruction	1.242.216	1.266.006	933.911	933.911	2.508.222	1.867.822	(640.400)	-25.53%
4110	Department of Justice	19.881.780	21.254.467	21.962.384	22.253.364	41.136.247	44.215.748	3.079.501	7.49%
4201	Public Service Regulation	2.300.576	2.491.662	3.236.594	2.417.164	4.792.238	5.653.758	861.520	17.98%
5101	Board of Public Education	160.152	189.009	175.176	174.035	349.161	349.211	50	0.01%
5102	Commissioner of Higher Ed	15.567.144	16.151.000	12.821.144	12.989.144	31.718.144	25.810.288	(5.907.856)	-18.63%
5113	School for the Deaf & Blind	228.068	228.069	235.065	235.065	456.137	470.130	13.993	3.07%
5114	Montana Arts Council	132.440	129.399	140.829	137.416	261.839	278.245	16.406	6.27%
5115	Library Commission	667.481	673.616	947.081	922.139	1.341.097	1.869.220	528.123	39.38%
5117	Historical Society	192.586	240.533	233.048	233.600	433.119	466.648	33.529	7.74%
5201	Dept. of Fish Wildlife & Parks	31.653.448	32.745.745	35.383.272	34.874.167	64.399.193	70.257.439	5.858.246	9.10%
5301	Dept of Environmental Quality	19.857.864	62.245.331	49.302.251	13.268.730	82.103.195	62.570.981	(19.532.214)	-23.79%
5401	Department of Transportation	179.411.483	146.876.154	175.485.778	176.868.054	326.287.637	352.353.832	26.066.195	7.99%
5603	Department of Livestock	6.241.457	6.279.501	6.741.816	6.645.269	12.520.958	13.387.085	866.127	6.92%
5706	Dept Nat Resource/Conservation	12.791.352	14.045.047	19.011.039	15.443.175	26.836.399	34.454.214	7.617.815	28.39%
5801	Department of Revenue	252.985	252.854	213.645	213.214	505.839	426.859	(78.980)	-15.61%
6101	Department of Administration	1.041.985	1.082.650	1.190.488	1.199.734	2.124.635	2.390.222	265.587	12.50%
6102	Appellate Defender	170.891	192.427	181.134	182.501	363.318	363.635	317	0.09%
6201	MT Dept of Agriculture	7.451.196	11.655.186	8.212.936	8.045.038	19.106.382	16.257.974	(2.848.408)	-14.91%
6401	Dept of Corrections	1.601.137	1.699.613	1.730.490	1.727.843	3.300.750	3.458.333	157.583	4.77%
6501	Department of Commerce	12.273.510	13.551.314	14.422.273	14.340.795	25.824.824	28.763.068	2.938.244	11.38%
6602	Labor & Industry	13.001.709	15.020.083	14.053.515	14.056.291	28.021.792	28.109.806	88.014	0.31%
6701	Dept of Military Affairs	82.946	193.521	200.097	200.097	276.467	400.194	123.727	44.75%
6901	Public Health & Human Services	32.370.025	49.505.705	39.428.840	42.631.425	81.875.730	82.060.265	184.535	0.23%
	Total	$365.493.799	$406.017.611	$415.214.876	$378.139.432	$771.511.410	$793.354.308	$21.842.898	2.83%

FEDERAL REVENUE

As defined in 17-7-102, MCA, the federal special fund "consists of money deposited in the treasury from federal sources, including trust income, that is used for the operation of state government."

Federal funds increase by $576.1 million, or 27.6 percent. The major increases occur in the Department of Public Health and Human Services, although these increases, along with the increase in the Montana University System, are skewed by the inclusion of $161.4 million in required accounting changes.

Major Department of Public Health and Human Services increases include:

?? $126 million for increases in Medicaid costs and utilization, and annualization of provider rate increases;

?? $29.3 million for FAIM Phase II implementation

?? $32.9 for costs to annualize various programs including mental health overruns, disability services, and the Children's Health Insurance Program; and

?? $25.5 million for new provider rate increases.

Other major increases include:

?? $161.4 million in accounting changes in the Department of Public Health and Human Services and the Commissioner of Higher Education;

?? $73.1 million in additional Section 8 housing grants in the Department of Commerce; and

?? $66.9 million in additional construction and maintenance in the Department of Transportation.

Figure 3
Federal Special Revenue Fund Comparison
01 Biennium Versus Executive Budget 03 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2000	Adjusted Authorized Fiscal 2001	Total Exec. Budget Fiscal 2002	Total Exec. Budget Fiscal 2003	Total Adjusted Fiscal 00-01	Total Exec. Budget Fiscal 02-03	Difference 03 Biennium - 01 Biennium	% Change 01 Biennium 03 Biennium
2110	Judiciary	$75.000	$74.999	$413.725	$413.725	$149.999	$827.450	$677.451	451.64%
3101	Governor's Office	43.656	43.075	2.045.000	45.500	86.731	2.090.500	2.003.769	2310.33%
3501	Office of Public Instruction	78.956.968	81.770.350	95.369.311	97.787.485	160.727.318	193.156.796	32.429.478	20.18%
4107	Crime Control Division	8.244.466	12.645.156	10.349.657	10.346.389	20.889.622	20.696.046	(193.576)	-0.93%
4110	Department of Justice	2.399.789	2.300.037	3.619.998	3.633.569	4.699.826	7.253.567	2.553.741	54.34%
4201	Public Service Regulation	15,616	20,099	13,763	13,763	35,715	27,526	(8,189)	-22.93%
5102	Commissioner of Higher Ed	32.211.455	44.177.638	45.857.186	47.056.620	76.389.093	92.913.806	16.524.713	21.63%
5113	School for the Deaf & Blind	81.394	81.394	88.898	88.898	162.788	177.796	15.008	9.22%
5114	Montana Arts Council	400.212	442.934	477.500	477.500	843.146	955.000	111.854	13.27%
5115	Library Commission	692.307	1.433.955	1.705.694	780.694	2.126.262	2.486.388	360.126	16.94%
5117	Historical Society	461.688	540.326	870.783	874.016	1.002.014	1.744.799	742.785	74.13%
5201	Dept. of Fish.Wildlife & Parks	11.491.288	10.290.803	15.904.590	15.976.365	21.782.091	31.880.955	10.098.864	46.36%
5301	Dept of Environmental Quality	14,667,880	15,942,243	21,994,851	21,375,699	30,610,123	43,370,550	12,760,427	41.69%
5401	Department of Transportation	243.276.564	302.957.956	303.425.767	309.661.164	546.234.520	613.086.931	66.852.411	12.24%
5603	Department of Livestock	447.159	490.114	1.262.917	1.246.032	937.273	2.508.949	1.571.676	167.69%
5706	Dept Nat Resource/Conservation	1.507.322	1.768.253	3.249.167	2.059.651	3.275.575	5.308.818	2.033.243	62.07%
5801	Department of Revenue	1.997.926	2.085.049	2.131.581	2.181.230	4.082.975	4.312.811	229.836	5.63%
6101	Department of Administration	28.670	32.332	864.768	62.906	61.002	927.674	866.672	1420.73%
6201	MT Dept of Agriculture	518.056	1.182.096	640.249	641.519	1.700.152	1.281.768	(418.384)	-24.61%
6401	Dept of Corrections	457.885	582.104	962.349	985.955	1.039.989	1.948.304	908.315	87.34%
6501	Department of Commerce	27,677,052	45,470,512	71,820,655	74,643,375	73,147,564	146,464,030	73,316,466	100.23%
6602	Labor & Industry	31.604.562	31.361.964	34.983.418	35.083.976	62.966.526	70.067.394	7.100.868	11.28%
6701	Dept of Military Affairs	5.997.914	6.376.384	9.272.889	8.910.956	12.374.298	18.183.845	5.809.547	46.95%
6901	Public Health & Human Services	505,660,821	558,270,670	698,463,794	705,188,655	1,063,931,491	1,403,652,449	339,720,958	31.93%
	Total	$968.915.650	$1.120.340.443	$1.325.788.510	$1.339.535.642	$2.089.256.093	$2.665.324.152	$576.068.059	27.57%

PROPRIETARY FUNDS

As defined in 17-7-102, MCA, proprietary funds are designated as either enterprise or internal service funds. Enterprise funds "account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e. expenses, including depreciation) of providing goods or services to that general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes." Internal service funds "account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost reimbursed basis."

Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the programs supported with these proprietary funds are not reflected in the table.

Appropriated proprietary funds increase $5.3 million, or 24.0 percent, due primarily to proposed increases in State Lottery expenses in the Department of Commerce.

Figure 4
Proprietary Fund Comparison
01 Biennium Versus Executive Budget 03 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2000	Adjusted Authorized Fiscal 2001	Total Exec. Budget Fiscal 2002	Total Exec. Budget Fiscal 2003	Total Adjusted Fiscal 00-01	Total Exec. Budget Fiscal 02-03	Difference 03 Biennium - 01 Biennium	% Change 01 Biennium 03 Biennium
3501	Office of Public Instruction	$0	$0	$152.083	$152.114	$0	$304.197	$304.197	
4110	Department of Justice	21.974	21.205	25.093	23.823	43.179	48.916	5.737	13.29%
5117	Historical Society	730.850	779.476	836.365	837.911	1.510.326	1.674.276	163.950	10.86%
5201	Dept. of Fish.Wildlife & Parks	0	0	0	0	0	0	0	
5801	Department of Revenue	1.830.488	1.870.604	2.322.387	2.342.962	3.701.092	4.665.349	964.257	26.05%
6101	Department of Administration	41.008	38.395	41.235	41.407	79.403	82.642	3.239	4.08%
6201	MT Dept of Agriculture	275.297	293.901	359.769	327.179	569.198	686.948	117.750	20.69%
6401	Dept of Corrections	336.887	416.267	585.748	585.289	753.154	1.171.037	417.883	55.48%
6501	Department of Commerce	6.742.943	8.639.126	9.328.899	9.366.405	15.382.069	18.695.304	3.313.235	21.54%
6602	Labor & Industry	47.653	47.818	60.006	60.288	95.471	120.294	24.823	26.00%
	Total	$10.027.100	$12.106.792	$13.711.585	$13.737.378	$22.133.892	$27.448.963	$5.315.071	24.01%

ALL FUNDS

The final comparison table is a composite by agency of the preceding tables, and shows an $819.4 million, or 16.2 percent increase in total fund expenditures.

Figure 5
All Funds Comparison
01 Biennium Versus Executive Budget 03 Biennium

Agcy Code	Agency Name	Adjusted Expenditures Fiscal 2000	Adjusted Authorized Fiscal 2001	Total Exec. Budget Fiscal 2002	Total Exec. Budget Fiscal 2003	Total Adjusted Fiscal 00-01	Total Exec. Budget Fiscal 02-03	Difference 03 Biennium - 01 Biennium	% Change 01 Biennium 03 Biennium
1104	Legislative Branch	$8,845,715	$8,722,018	$10,784,430	$10,102,563	$17,567,733	$20,886,993	$3,319,260	18.89%
1112	Consumer Counsel	867,516	1,098,793	1,106,076	1,108,133	1,966,309	2,214,209	247,900	12.61%
2110	Judiciary	9,767,270	10,223,387	11,962,750	11,941,097	19,990,657	23,903,847	3,913,190	19.58%
2115	Mt.Chiropractic Legal Panel	10,539	17,193	15,000	15,000	27,732	30,000	2,268	8.18%
3101	Governor's Office	3,298,954	3,398,122	5,794,111	3,589,968	6,697,076	9,384,079	2,687,003	40.12%
3202	Commissioner of Political Prac	317,129	367,961	352,660	349,043	685,090	701,703	16,613	2.42%
3401	State Auditor's Office	3,212,971	5,711,104	3,651,943	3,582,704	8,924,075	7,234,647	(1,689,428)	-18.93%
3501	Office of Public Instruction	561,084,710	579,201,691	589,331,607	601,770,404	1,140,286,401	1,191,102,011	50,815,610	4.46%
4107	Crime Control Division	10,755,576	15,199,069	12,950,203	12,958,318	25,954,645	25,908,521	(46,124)	-0.18%
4110	Department of Justice	43,866,540	45,608,644	49,950,063	50,243,698	89,475,184	100,193,761	10,718,577	11.98%
4201	Public Service Regulation	2,316,192	2,511,761	3,250,357	2,430,927	4,827,953	5,681,284	853,331	17.67%
5101	Board of Public Education	297,655	327,371	332,004	329,542	625,026	661,546	36,520	5.84%
5102	Commissioner of Higher Ed	172,273,134	187,467,577	197,416,287	201,380,742	359,740,711	398,797,029	39,056,318	10.86%
5113	School for the Deaf & Blind	3,503,888	3,662,474	3,761,374	3,736,950	7,166,362	7,498,324	331,962	4.63%
5114	Montana Arts Council	813,256	850,882	990,015	955,664	1,664,138	1,945,679	281,541	16.92%
5115	Library Commission	2,957,621	3,731,133	4,938,903	3,717,579	6,688,754	8,656,482	1,967,728	29.42%
5117	Historical Society	3,035,644	3,136,260	4,340,215	4,321,661	6,171,904	8,661,876	2,489,972	40.34%
5201	Dept. of Fish,Wildlife & Parks	43,564,202	43,453,596	51,721,417	51,284,087	87,017,798	103,005,504	15,987,706	18.37%
5301	Dept of Environmental Quality	37,792,120	81,734,225	76,258,806	39,198,784	119,526,345	115,457,590	(4,068,755)	-3.40%
5401	Department of Transportation	422,938,047	450,084,110	479,161,545	486,779,218	873,022,157	965,940,763	92,918,606	10.64%
5603	Department of Livestock	7,220,893	7,453,960	8,661,315	8,552,866	14,674,853	17,214,181	2,539,328	17.30%
5706	Dept Nat Resource/Conservation	30,827,968	32,825,577	41,683,879	35,906,816	63,653,545	77,590,695	13,937,150	21.90%
5801	Department of Revenue	44,063,117	87,374,441	87,757,367	88,037,750	131,437,558	175,795,117	44,357,559	33.75%
6101	Department of Administration	5,067,661	5,371,028	6,198,355	5,153,215	10,438,689	11,351,570	912,881	8.75%
6102	Appellate Defender	170,891	192,427	181,134	182,501	363,318	363,635	317	0.09%
6201	MT Dept of Agriculture	8,853,263	14,814,903	9,975,675	9,770,192	23,668,166	19,745,867	(3,922,299)	-16.57%
6401	Dept of Corrections	91,500,097	93,187,213	105,958,039	111,794,520	184,687,310	217,752,559	33,065,249	17.90%
6501	Department of Commerce	48,788,736	69,931,424	98,299,620	101,034,545	118,720,160	199,334,165	80,614,005	67.90%
6602	Labor & Industry	46,164,794	47,961,142	51,245,376	51,352,739	94,125,936	102,598,115	8,472,179	9.00%
6701	Dept of Military Affairs	8,873,966	9,524,776	14,068,886	13,425,233	18,398,742	27,494,119	9,095,377	49.43%
6901	Public Health & Human Services	766,844,709	840,312,185	998,902,973	1,018,733,656	1,607,156,894	2,017,636,629	410,479,735	25.54%
	Total	$2,389,894,774	$2,655,456,447	$2,931,002,385	$2,933,740,115	$5,045,351,221	$5,864,742,500	$819,391,279	16.24%

TRUST FUNDS

TRUST FUND BALANCES

Montana has a number of constitutional and statutory trusts that provide interest income to fund state government operations. While the legislature has spent the principal of the education trust and slowed the flow of revenue into the coal tax trust, parks acquisition and resource indemnity tax trusts, substantial balances remain.

The Fifty-sixth Legislature in the 1999 session reduced the rate of growth in many of the trusts by passing legislation that redirected incoming revenues. The Fifty-sixth Legislature passed legislation that will reduce the fiscal 2001 ending fund balance for all trusts combined by $26 million when compared with pre-session estimates. The reduction in revenue growth will be greatest for the Permanent Coal Tax Trust, the Treasure State Endowment, and the Common School Fund. The legislature substantially enhanced the revenue growth into the noxious weed trust and marginally increased revenue into the Resource Indemnity Trust.

Figures 1 and 2 show the history of the ten major trusts since fiscal 1973. Forecasted amounts are shown for fiscal years 2001, 2002, and 2003, and are based on assumptions adopted by the Revenue and Taxation Committee in House Joint Resolution 2 (HJR 2). Following is a description of each trust and the income it generates. Also shown are expected interest earnings from each trust in fiscal years 2001, 2002, and 2003.

Figure 1
Cumulative Balances of Trust Funds

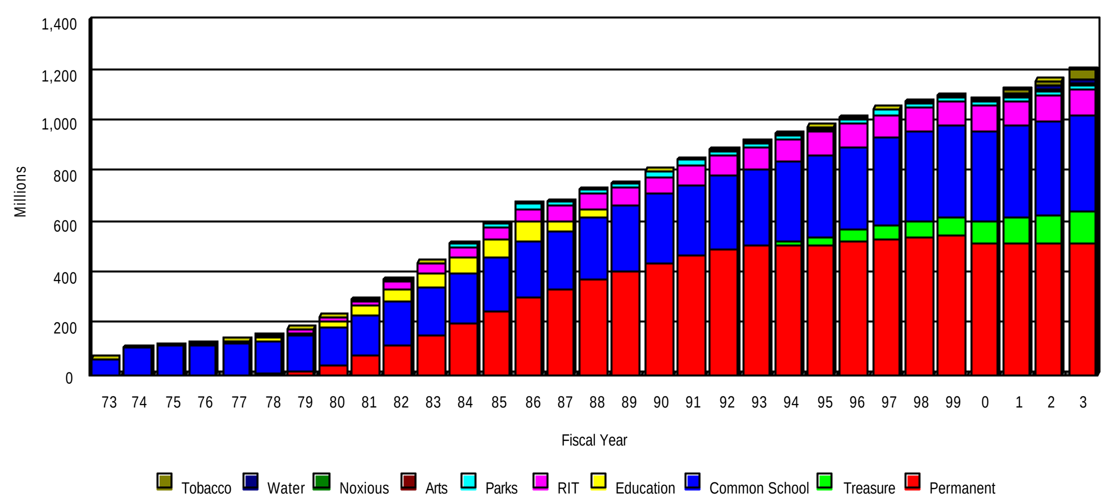


Figure 2
Selected Trust Fund Balances
Including Projected Investment Earnings

	Fiscal Year	Permanent Coal Tax Trust Fund	Treasure St Endowment Trust Fund	Common School Trust Fund	Education Trust Fund	Resource Indemnity Trust Fund	Parks Acquisition Trust Fund	Arts Protection Trust Fund	Noxious Weed Trust Fund	Regional Water Trust Fund	Tobacco Trust Fund	Total Trust Funds
A	73	0	0	64,223,773	0	0	0	0	0	0	0	64,223,773
A	74	0	0	108,998,870	0	1,141,385	0	0	0	0	0	110,140,255
A	75	0	0	113,064,188	0	3,287,456	0	0	0	0	0	116,351,644
A	76	0	0	117,849,628	2,227,793	5,552,291	278,725	0	0	0	0	125,908,437
A	77	0	0	123,281,528	6,039,530	8,232,247	758,308	0	0	0	0	138,311,613
A	78	6,268,262	0	129,949,247	8,983,763	10,646,851	1,174,356	0	0	0	0	157,022,479
A	79	16,940,538	0	137,716,735	12,339,549	12,574,209	1,475,732	0	0	0	0	181,046,763
A	80	39,964,765	0	147,527,943	23,905,146	16,204,531	3,565,371	0	0	0	0	231,167,756
A	81	75,187,459	0	163,163,556	33,624,170	21,165,464	5,325,746	0	0	0	0	298,466,395
A	82	118,336,314	0	176,467,865	44,338,477	28,328,946	7,480,418	0	0	0	0	374,952,020
A	83	158,358,806	0	189,390,417	52,665,410	36,181,889	9,481,542	0	0	0	0	446,078,064
A	84	202,936,358	0	201,319,109	60,925,268	42,986,128	11,565,460	0	0	0	0	519,732,323
A	85	252,420,524	0	214,764,544	70,500,922	47,396,179	13,859,181	0	0	0	0	598,941,350
A	86	309,384,250	0	217,677,906	79,761,708	53,039,675	16,222,131	0	443,184	0	0	676,528,854
A	87	339,883,180	0	227,687,073	44,091,429	56,861,627	16,613,608	0	824,550	0	0	685,961,467
A	88	381,180,287	0	239,553,633	33,671,110	61,750,961	16,581,042	0	1,070,972	0	0	733,808,005
A	89	411,838,993	0	254,128,428	8,651,477	66,665,000	16,608,706	0	1,320,720	0	0	759,213,324
A	90	446,511,416	0	268,496,362	0	72,811,618	17,936,701	0	1,688,370	0	0	807,444,467
A	91	470,322,655	0	280,326,496	0	77,324,921	18,882,548	0	2,121,973	0	0	848,978,593
A	92	496,465,569	0	291,753,603	0	82,489,898	12,588,366	7,051,506	2,584,254	0	0	892,933,196
A	93	511,474,640	0	300,782,863	0	86,890,369	12,538,119	6,863,579	2,534,844	0	0	921,084,414
A	94	511,754,471	20,520,830	310,735,129	0	89,316,268	12,538,119	7,025,290	2,518,875	0	0	954,408,982
A	95	515,470,287	31,793,125	321,265,835	0	91,614,674	12,538,119	7,296,373	2,544,390	0	0	982,522,803
A	96	530,144,251	42,262,548	331,630,225	0	93,152,864	12,998,633	7,518,157	2,502,197	0	0	1,020,208,875
A	97	538,223,210	52,210,048	347,298,490	0	94,584,643	13,483,000	3,846,000	2,527,953	0	0	1,052,173,344
A	98	545,789,038	61,800,580	355,329,490	0	95,582,249	14,005,728	3,852,201	2,537,621	0	0	1,078,896,907
A	99	555,204,609	68,334,808	365,188,709	0	94,991,658	14,399,076	3,852,202	2,471,388	0	0	1,104,442,450
A	00	525,869,144	81,347,120	359,661,156	0	96,404,163	14,834,592	4,050,384	3,635,000	4,433,724	0	1,085,801,559
Fund Balance Forecast												
F	01	525,869,000	93,528,000	366,166,000	0	97,974,000	15,258,000	4,260,000	4,788,163	8,494,000	10,452,000	1,107,843,163
F	02	525,869,000	105,894,000	373,277,000	0	99,426,000	15,688,000	4,473,000	4,817,172	12,616,000	23,068,000	1,129,444,172
F	03	525,869,000	118,264,000	381,472,000	0	99,426,000	16,117,000	4,686,000	4,847,062	16,739,000	35,833,000	1,150,681,062
Investment Earnings Forecast												
F	01	39,117,000	6,173,000	23,477,000	0	7,467,000	1,012,000	301,000	335,171	473,000	503,000	81,272,028
F	02	39,133,000	7,088,000	23,934,000	0	7,582,000	1,044,000	317,000	337,202	775,000	1,379,000	83,055,740
F	03	39,043,000	7,952,000	24,367,000	0	7,609,000	1,073,000	331,000	339,294	1,078,000	2,314,000	85,266,452

CONSTITUTIONAL TRUSTS

Permanent Coal Tax Trust

Article IX, Section 5 of the Montana Constitution requires that at least 50 percent of all coal severance tax revenue be deposited in a permanent coal tax trust fund, and that the principal of the trust "shall forever remain inviolate unless appropriated by a vote of three-fourths of the members of each house of the legislature." By statute, interest earned on this trust that is not earmarked for other programs is distributed 100 percent to the general fund. As described below, some of the interest earned on the trust is earmarked for other programs.

The interest earned on the permanent coal tax trust fund is an important general fund revenue source. During the period of fiscal 1981 through fiscal 1998, $619.5 million in interest from this trust was deposited in the combined general fund/school equalization account (SEA). In fiscal 1998, permanent coal tax trust fund interest provided 3.9 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, required that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the Montana economy "with special emphasis on investments in new or expanding locally owned enterprises." The 1991 legislature: 1) eliminated separate accounting for the in-state investment trust; and 2) instructed the Board of Investments to "endeavor to invest up to 25 percent of the permanent coal tax trust fund" in the Montana economy.

The 1989 and 1991 legislatures gave authority to the Montana Science and Technology Alliance (MSTA) for the use of $12.5 million from the in-state investment fund for investment in new and expanding technology-based Montana businesses and for research and development project loans. The 1993 legislature authorized MSTA to invest an additional $11.0 million from the in-state investment program.

The payback of principal from MSTA loans returns to the trust. Before July 1, 1993, the interest from MSTA loans was distributed in the same manner as other interest earned on the permanent coal tax trust fund. House Bill 394, enacted by the 1993 legislature, created a special revenue account into which all interest earned from MSTA loans is deposited and from which MSTA expenses will be paid, with the balance returning to the trust.

Coal tax revenue flowing into the permanent coal tax trust fund is also used to secure state bonds issued to finance water resource development projects and activities. Since 1981, when the legislature authorized this bonding program, $78.1 million in water development projects throughout the state have been authorized with revenue from these bonds.

The 1991 legislature also appropriated $3.25 million from the permanent coal tax trust fund for the Microbusiness Development Act. These funds provided capital to microbusiness development corporations that provide loans and technical assistance to qualified small businesses. Interest earnings and loan repayments were retained by the program to finance administrative costs and future loans.

During the January 1992 Special Session, the legislature authorized the creation of a school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provided up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. School districts are required to repay any guarantee funds used. Interest on the contingency fund is distributed in the same manner as all other interest earned on the permanent coal tax trust fund. This legislation expired on January 1, 1993. House Bill 667, passed during the 1993 legislative session, provides Guaranteed Tax Base (GTB) aid to certain schools with bonds outstanding or bond issues contemplated. The source of funding for GTB aid was the school equalization account (SEA).

The contingency fund has provided backing for $23.4 million in school bonds for 14 schools. The average balance in the contingency fund has been slightly more than $2.0 million. The contingency fund will continue to exist for the next 20 years until these bonds are retired.

In the June 1992 election, voters approved a referendum to create the treasure state endowment fund (TSEF) within the permanent coal tax trust fund. The fund received a $10.0 million grant from the trust principal in fiscal 1994 and will receive half the funds deposited in the trust during fiscal 1995 through fiscal 2013. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the Departments of Commerce and Natural Resources and Conservation and authorized by the legislature.

During the November 1993 Special Session, the legislature authorized in SB 4 that the cash balance in the coal tax bond fund as of July 1, 1993 be deposited in the permanent coal tax trust fund. The total amount transferred was $31.1 million.

Senate Bill 4 also changed the distribution mechanism by requiring the 50 percent coal severance tax revenue allocation be deposited in the TSEF and the permanent coal tax trust fund on an equal basis. Prior to SB 4, coal severance tax revenue earned on production taking place beginning July 1, 1993, was to have been deposited in TSEF. In the following fiscal year, one-half of the previous year's inflow was to have been deposited in the permanent coal tax trust fund, and the TSEF was to retain the rest. Without SB 4, the permanent coal tax trust fund would not have received any coal severance tax revenue during fiscal 1994.

The 1993 legislature passed HB 401, which authorized a loan to the Department of Environmental Quality (DEQ), (formerly the Department of Health and Environmental Sciences) from the permanent coal tax trust fund for technical, litigation, and administrative expenses associated with the natural resource damage litigation suit against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.6 million for the 1995 biennium and $5.2 million to repay principal and interest to the general fund for litigation costs incurred in the 1993 biennium. As of December 1994, $6.3 million had been withdrawn from the permanent coal tax trust to pay for litigation expenses.

The 1995 legislature enacted several measures that affected permanent trust balances and interest income.

House Bill 305 authorized a loan to the Department of Justice from the permanent coal tax trust for the purpose of conducting the litigation and natural resource claims against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.4 million for the 1997 biennium. The bill also extended loans made for the same purpose during the 1995 biennium. As of May 1998, $9.8 million had been withdrawn from the permanent coal tax trust to pay litigation expenses.

House Bill 354 expanded appropriations for the Microbusiness Financing Act, which provides loans to businesses employing less than ten employees and generating less than $500,000 in gross revenue annually. The expansion of this program doubled the previous appropriation to $3.25 million of investable coal tax trust funds made available to the Microbusiness Finance Program in the Department of Commerce. Beginning July 1, 1995, HB 354 also increased maximum loan amounts per individual loan from $20,000 to $35,000. The program provides financing for working capital assets and fixed asset acquisition with more flexible repayment terms than those offered by commercial institutions. Payback of interest and principal of the loan amounts are used for administrative purposes and for financing new microbusiness loans.

Senate Bill 38 authorized the Job Investment Act under which the Department of Commerce may loan a portion of the permanent coal tax trust to businesses to create and retain jobs in Montana. A loan to a qualified business may not exceed $500,000, and the department is to report annually to the Revenue and Taxation Committee. The legislation also reduced the amount of permanent coal tax trust funds that the Board of Investments allows the Montana Board of Science and Technology Development to invest in seed capital loans and mezzanine loans from $15.5 million to $12.5 million. The bill also increased the amount of permanent coal tax trust funds available for research and development projects from $8.1 million to $11.1 million. In the past, these funds were used primarily as loans to the University System. Under SB 38, these funds were granted to the University System for research and development projects. As of October 1, 1998, $25.7 million had been loaned or granted to Montana businesses and the university system.

Senate Bill 83 abolished the distribution of coal trust interest to the SEA. Under previous law, 15 percent of coal trust interest earnings were deposited in the SEA and 85 percent in the general fund. As a result of SB 83, 100 percent of coal trust interest earnings are deposited in the general fund in fiscal 1996 and beyond.

The 1997 legislature enacted several measures that affected permanent trust balances and interest income:

House Bill 110 appropriated to the Department of Justice $2.5 million in state special revenue to be used for continuing litigation expenses associated with the Atlantic Richfield case. The appropriation was for expenses incurred during the 1999 biennium, and, upon settlement of the case, the amount used plus interest was to be returned to the general fund. The case was settled in June of 1998 for $215 million dollars. On June 24, 1998, $15 million was deposited into STIP for payment to the permanent trust and the general fund. In the middle of October 1998, $12.2 million was transferred to the permanent trust, including $9.8 million in principal and $2.4 million in interest. In the middle of November 1998, $1.9 million was transferred to the general fund. This was made up of principal ($1.4 million) and interest ($0.5 million) and constituted repayment of general fund loans going back to fiscal 1983 when the case began.

The legislature amended the allocation of coal severance taxes under 15-35-108, MCA. In HB 14, the 1997 legislature authorized the issuance of general obligation bonds to fund the purchase of Virginia City and Nevada City properties. In HB 5, the legislature allocated 1.3 percent of coal severance tax revenue to pay the debt service on the bonds, which are to be issued for a term of ten years. Coal tax revenue will be distributed to the Long-Range Building Program (LRBP) debt service account for fiscal 1998 through 2007. This allocation diverts coal severance tax revenue that would otherwise be deposited in the general fund. Based on revenue estimates in HJR 2, this change in allocation resulted in a loss to the general fund of $0.5 million in fiscal 1998 and 1999. Once the ten-year period has expired, the 1.3 percent allocation will revert to the general fund.

House Bill 5 also eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of the Virginia City and Nevada City. This will result in a loss of trust interest revenue that otherwise would be used to fund cultural and aesthetic (C&A) projects in the state during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. Based on revenue estimates in HJR 2, this part of HB 5 results in a loss to the general fund of $91,736 and $93,195 for fiscal 1998 and 1999, respectively. After the 1999 biennium, similar amounts of coal severance tax revenue will be diverted from the C&A projects account and will again flow to the general fund.

House Bill 578 abolished the Montana Board of Science and Technology beginning July 1, 1999. The amount of money committed for research and development ($11.1 million) and for seed capital loans ($12.5 million) may be disbursed until July 1, 1999. Any money under these caps that has not been committed, except for $915,000, must be returned to the coal tax trust. The Board may continue to provide seed capital loans of up to $700,000 to existing seed capital companies until July 1, 1999 or until an amount of $915,000 has been reached; however, up to $75,000 of this may be used for administrative expenses. Beginning April 1, 1997, the proceeds from seed capital loans must be deposited in the coal tax trust. However, during fiscal 1998, $250,000 of seed capital income, as well as $150,000 of job investment loan income, must be used to fund the judges' retirement system. Also beginning April 1, 1997, and ending July 1, 1999, up to $2.0 million in income and interest from research and development loans at Montana public universities may be granted to research and development (R&D) projects at the universities. After July 1, 1999, all repayment proceeds from both seed capital loans and R&D loans in excess of $4.4 million must be deposited in the coal severance tax permanent fund. The amount of $4.4 million presumably may continue to be loaned out by the Department of Commerce under a business investment strategy plan, which must be reported to the Fifty-sixth Legislature.

1999 Legislative Action

HB 260 – Beginning July 1, 1999, HB 260 imposed a new coal license tax on the contract sales price of coal and reduced the coal severance tax liability for coal producers by allowing a credit against the coal severance tax in the amount of 101.5 percent of coal license tax liability. Thus, coal producers would realize a reduction of 1.5 percent in tax liability on coal production.

The total reduction in coal severance tax collections was expected to be $20.7 million in fiscal 2000 and $19.6 million in fiscal 2001. The new coal license tax would generate $20.4 million in fiscal 2000 and $19.3 million in fiscal 2001.

The legislation, in combination with HB 69 and SB 220, provided a new distribution of coal severance taxes and specified a distribution for the new coal license tax. Under the new distribution, none of the coal severance revenue would be distributed to the permanent trust. Instead, 37.5 percent of the reduced coal severance tax revenue stream would be deposited in the treasure state endowment trust fund, and 12.5 percent would be deposited in a new TSEF regional water system account (SB 220). The remaining distribution of the coal severance tax would be deposited as under previous law, except that the amount (1.3 percent) to long-range building program debt service will now be directly deposited in the general fund as per HB 69.

Coal severance tax revenue deposited in the permanent fund would be reduced by $8.3 million in fiscal 2000 and by $7.9 million in fiscal 2001. None of the new coal license tax will be allocated to the permanent fund.

Coal severance tax revenue deposited in the TSEF would be reduced by $3.6 million in fiscal 2000 and $3.4 million in fiscal 2001.

The revenue diversions in the each trust, as well as some of the revenue from the new coal license tax, would be deposited into spendable accounts that will be used for ongoing projects and payments associated with infrastructure loans and grants, agricultural seed capital, and research and commercialization loans and grants.

However, on January 20, 2000, the Montana Supreme Court found that HB 260 violated Article IX, Section 5, of the Montana Constitution and enjoined enforcement of the new coal producer's license tax. This rendered most of the legislation and appropriations meaningless. The decision did not affect the establishment of the research and commercialization expendable trust. Coordination with SB 220 also was not affected, thus the establishment of the treasure state endowment regional water system trust and the distribution of coal severance tax to the trust and the TSEF remain intact.

HB 69 – Eliminates the distribution of coal severance tax revenue to the long-range building debt service account that was used to pay bonds issued for the purchase of Virginia City and Nevada City property. Beginning July 1, 1999, the revenue is deposited in the general fund and the bond service payments are made by the general fund.

SB 220 – Beginning July 1, 1999, SB 220 created a new treasure state endowment regional water system fund into which is deposited 25 percent of one half of all coal severance receipts. The other 75 percent of one-half of coal severance receipts flows into TSEF.

Common School Trust

Article X, Sections 2 and 3 of the Montana Constitution require that all royalties and other proceeds received from school lands granted to the state under the federal enabling act must be deposited in the common school trust fund and "shall forever remain inviolate, guaranteed by the state against loss or diversion." Article X, Section 5 requires that 95 percent of the interest from this trust be used for school equalization, with the remaining 5 percent reinvested in the trust. In addition, 95 percent of all rents, royalties, and other income received from leasing of school lands is to be used for public schools with the remaining 5 percent invested in the trust.

During the January 1992 Special Session, the legislature passed HB 3, which provided that 95 percent of the revenue from state timber sales (approximately $4.9 million) be deposited in the SEA during the 1993 biennium, with the remaining 5 percent deposited in the trust.

The 1993 legislature passed HB 652, which continued the practice of diverting 95 percent of timber revenue to the SEA during the 1995 biennium. The loss in revenue to the common school trust during the 1995 biennium was approximately $9.1 million. House Bill 667, also passed during the 1993 legislative session, continued this practice indefinitely. The loss of revenue to the common school trust during the 1997 biennium was approximately $9.7 million.

The 1995 legislature enacted several measures affecting revenue from state lands. House Bill 50 made permanent certain provisions regarding the sale of timber on state lands. House Bill 50 was expected to result in additional sales of timber during the 1997 biennium. However, additional costs associated with the sale of timber were also expected to be incurred. These costs are deducted from timber sale revenues.

House Bill 201, passed by the 1995 legislature, required the state to increase timber sales from state lands consistent with an annual sustainable yield of 45 million board feet to 55 million board feet, contingent on a study to determine the appropriate level of annual sustainable yield. House Bill 201 capped the amount of timber sale revenue deposited in the general fund (formerly the school equalization account, which was abolished in SB 83) from the common school trust at an average annual sale value of 18 million board feet. Any excess timber sale revenue from the common school trust is to be deposited in the general fund, but "earmarked" for deposit in school districts' newly established technology acquisition fund to buy technological equipment and provide technical training for school district personnel.

House Bill 201 also affects timber sale revenue because it diverts timber sale revenue before it is deposited in the general fund to pay for costs associated with increasing timber sales. The total revenue effect was expected to be a loss of $1.1 million to the general fund during the 1997 biennium.

House Bill 274, passed by the 1995 legislature, granted the Department of State Lands broader discretion to expedite sales of state timber in emergency situations and limited access situations. Effective in fiscal 1996, as a result of the natural resources reorganization bill [SB 234], the forestry function was transferred from the Department of State Lands to the Department of Natural Resources and Conservation.

Senate Bill 83 de-earmarked all interest from the common school trust and income earned on common school lands. Henceforth, these revenues flow into the general fund.

The 1997 legislature passed legislation that impacted the flow of timber revenue into the common school trust by appropriating timber revenue for use by the DNRC to enhance timber sales during the 1999 biennium. The amounts appropriated, $1.2 million and $1.3 million in respective years of the biennium, are diverted from the revenue stream before the allocation of 5 percent of revenue to the trust.

House Bill 2 appropriated anticipated timber sale revenue in excess of that associated with 18 million board feet for deposition in schools' technology acquisition funds. The purpose of the fund is to allow each district to buy technological equipment and provide technical training for school district personnel. The amounts appropriated were $1.5 million in fiscal 1998 and $2.8 million in fiscal 1999, or the amount of "excess" revenue in each year, whichever is less. However, no payment will be made in fiscal 1999, but $3.4 million is expected to be spent during the 2001 biennium.

1999 Legislative Action

Senate Bill 48 makes significant changes in funding the Trust Land Management Division in the Department of Natural Resources and Conservation. The legislation diverts a portion of the following money (previously deposited into the corpus of the land trust funds) from ten land trusts administered by the department: 1) mineral royalties; 2) the proceeds or income from the sale of easements and timber (except timber from public school lands); and 3) 5 percent of the interest and income previously credited annually to the public school fund. The money is diverted to a state special revenue account to pay costs of administering state trust lands. The legislation provides limitations on the amount of diverted revenue and the amount of the appropriations: 1) the diverted revenue is limited to 1-1/8 percent of the book value balance in each of the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the previous fiscal year revenue deposited into the capitol building land grant trust fund; and 2) appropriations of the money are limited to 1-1/8 percent of the book value balance in the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the revenue deposited in the capitol building land grant trust fund in the last completed fiscal year prior to the new biennium. In HB 2, the legislature replaced $7.1 million of general fund appropriations with state special revenue provided by this legislation. Therefore, deposits to land trusts (primarily the Common School Trust) will be reduced by $7.1 million over the biennium, approximately $3.5 million per year.

Resource Indemnity Trust

Article IX, Section 2 of the Montana Constitution and Title 35, Chapter 38, MCA, require that certain resource extraction taxes be placed in a trust. The principal of the resource indemnity trust "shall forever remain inviolate in an amount of one hundred million dollars ($100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches $100 million, any additional tax revenue may be appropriated. During the 1993 legislative session, the legislature passed HB 608 that decreased the amount of resource indemnity and groundwater assessment (RIGWA) tax proceeds deposited in the trust during the 1995 biennium from 85.9 percent per year to 55.9 percent, or approximately $5.0 million. The bill further reduced the amount of RIGWA tax revenue deposited in the trust to 45.9 percent beginning July 1, 1995.

During the July 1992 Special Session, the legislature imposed a one-year surtax on resource indemnity tax liability and allocated collections from the surtax to the general fund.

During the 1995 session, the legislature replaced a portion of RIGWA tax proceeds with oil and gas tax proceeds due to a bill to simplify oil and gas taxes (SB 412). Also, the legislature diverted for other purposes the metal mines license tax proceeds that previously were deposited to the trust.

During the 1997 session, Senate Bill 377 reduced the growth rate in the ending fund balance of the RIT trust by diverting $200,000 per year from RIGWA tax inflows and 8.5 percent from metalliferous mines license tax revenue to a newly created orphan share account. The reduction of inflow into the trust in each year of the biennium as a result of these diversions will be $674,000 and $743,000.

1999 Legislative Action

SB 49 and SB 492 increased the allocation of the RIGWA tax and the RIT share of the oil and gas production tax to the RIT. The ending fund balance at the end of the 2001 biennium is expected to increase by $162,000 as a result of the legislation.

See the RIT discussion on page 100 for additional detail.

Tobacco Settlement Trust

Due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. The remainder of the money is deposited into the general fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Interest earnings from the trust fund are to be distributed: 1) 90 percent for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and 2) 10 percent to the trust. Money in the trust fund can be spent if approved by 2/3 of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money that support tobacco disease prevention programs that existed on December 31, 1999.

Montana receives revenue as a settling party to a Master Settlement Agreement with four original tobacco companies and 19 subsequent companies, thus ending a four-year legal battle that included 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia. All told, there were 52 total settling entities. Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (two received in fiscal 2000 with an additional one per year expected in fiscal years 2001, 2002, and 2003); 3) on-going annual payments; and 4) strategic contribution payments (from fiscal 2008 through 2017). The Master Settlement Agreement places no restrictions on how the money is to be spent.

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The two most important ones are the adjustments for inflation and volume of cigarettes shipped nationally. The amount of Montana's share will increase if inflation is positive and decrease with inflation. The amount will also decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases.

STATUTORY TRUSTS

Education Trust

From fiscal years 1976 through 1986, a portion of the revenue from the coal severance tax was allocated to an education trust for the support of education. The legislature appropriated the corpus of this trust to the school equalization account during the period of fiscal 1987 through 1990. Since fiscal 1990, the education trust has not received revenue from any source and its balance is zero.

Parks Acquisition/Arts Protection Trust

During most of the last 20 years, a portion of the coal severance tax has been earmarked for the parks acquisition trust. During the late 1980s, the flow of revenue into this account was diverted to the general fund. However, the principal began to increase again in fiscal 1990. Prior to fiscal 1992, two-thirds of the interest from this trust was statutorily allocated for acquisition and operation of state parks, and one-third was allocated for protection of works of art in the state capitol and other cultural and aesthetics projects.

The 1991 legislature split the principal of this trust into two separate trusts: a parks acquisition trust and an arts protection trust. During the 1993 biennium, the coal tax revenue that would have flowed into the parks acquisition trust (1.267 percent) was spent for maintenance of parks and historic sites, along with the interest from the trust. House Bill 687, passed during the 1993 legislative session, continued this practice for the 1995 biennium, allocating $1.6 million from the trust to current operations. In the 1997 biennium, the coal tax revenue allocation was again deposited in the trust. Senate Bill 27, passed by the 1995 legislature, increased the allocation to the parks acquisition trust from 1.267 percent to 1.270 percent.

In fiscal 1992, 0.633 percent of coal severance tax revenues was deposited in the arts protection trust, with the trust interest continuing to be used for protection of works of art and for cultural and aesthetics projects. During the January 1992 Special Session, the legislature diverted a portion of the revenue that would have flowed into the arts protection trust in fiscal 1993 to fund the operations of the Montana Arts Council. Beginning in fiscal 1994, these revenues were again deposited in the trust. Senate Bill 27, passed by the 1995 legislature, decreased the allocation to the arts trust from 0.633 percent to 0.630 percent.

The 1997 legislature amended the allocation of coal severance taxes under 15-35-108, MCA. House Bill 5 eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of Virginia City and Nevada City. This resulted in a loss of trust interest revenue that otherwise would be used to fund cultural and aesthetic (C&A) projects in the state during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account, and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. After the 1999 biennium, similar amounts of coal severance tax revenue will be diverted from the C&A projects account and will again flow to the general fund.

1999 Legislative Action

House Bill 260, HB 69, and SB 220 reduce coal severance tax revenue and replace it with coal license tax revenue. The aim of the legislation was to hold the revenue flow into the arts and parks trusts as under current law. However, the arts and parks trusts will lose around $25,000 over the biennium.

However, the January 20, 2000 decision of the Montana Supreme Court that found HB 260 violated Article IX, Section 5, of the Montana Constitution rendered the above changes meaningless.

Noxious Weed Management Trust

During the period fiscal 1986 through 1992, at least one-half of the collections from a 1 percent surcharge on the retail sale of herbicides was deposited in the noxious weed management trust fund. The remaining collections were spent for weed control grants. The interest earned on the trust is retained in the trust. After the principal of the trust reached $2.5 million in fiscal 1992, all herbicide surcharge collections and the interest earned on the trust became available for weed control grants.

Senate Bill 321, passed by the 1995 legislature, increased the amount of the gasoline tax revenue allocated to the snowmobile account from 23/64 of one percent to 15/28 of one percent. Beginning in fiscal 1996, one percent of the amount deposited in the snowmobile account is deposited in the Montana noxious weed control trust administered by the Department of Agriculture.

1999 Legislative Action

For the 2001 biennium, Senate Bill 164 transfers $1.125 million per year to the noxious weed trust from the highway non-restricted account in Section 15-70-125, MCA. As a result, the ending fund balance in the trust will increase to $4.8 million by June 30, 2002.